Hand New Challenges
2007 Annual Report
LOTO QUÉBEC

Table of Contents

- Letter to Clients
- Financial Highlights
- Awards and Social Contributions
- Message from the President

- Review of Operational Activities
- Overview
- Investing into Assets in Quebec
- Investing into Private Equity in Quebec
- Investing into Hedge in Quebec
- Indexing
- Investing into Assets in Asia Ex-Quebec
- Client Servicing

- Review of Management Activities
- Professional Development and Social Responsibility
- Financial Overview

- Consolidated Financial Statements
- Management's Report
- Auditors' Report
- Consolidated Statements of Earnings
- Consolidated Statements of Retained Earnings
- Consolidated Balance Sheet
- Consolidated Statements of Cash Flows
- Notes to the Consolidated Financial Statements

- Comparative Results

- Code of Ethics and Rules of Professional Conduct
- Board of Directors and Corporate Secretariat
- Proxy and Committee Reports

- Corporate Structure
- Addresses

Loto-Québec's Mission

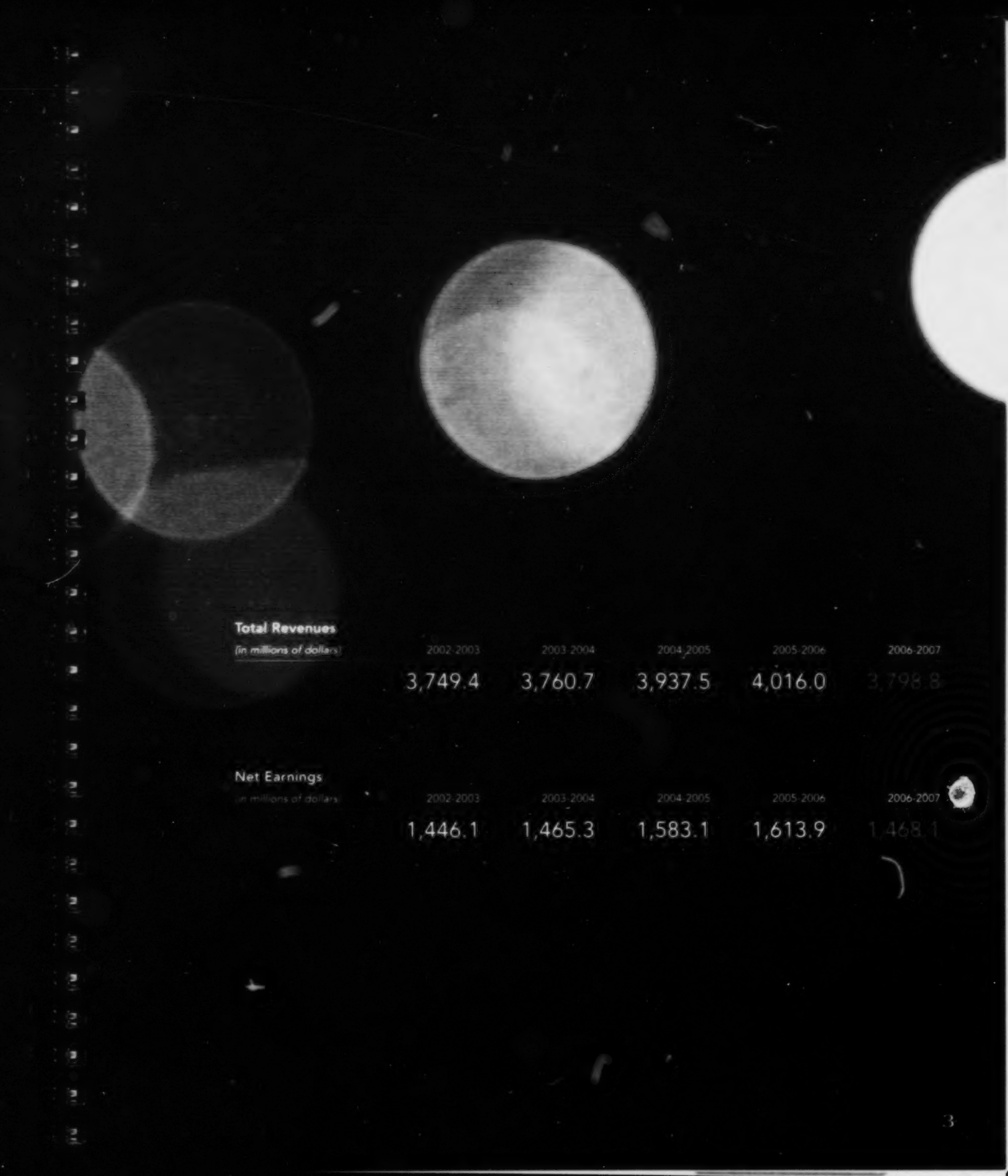
Loto-Québec's primary mission is to assure the systematic and effective operation of games of chance in the province. Created in 1969 to implement a public lottery, the Corporation has diversified its activities over the years in order to carry out new mandates entrusted to it by the Government.

In addition to a public lottery, through its subsidiaries, Loto-Québec operates three casinos, related restaurant and hotel services, a video lottery network, along with network bingo activities. In addition, the Corporation exports multimedia products to international markets and is coproprietor of Moliflor Loisirs, the third largest casino operator in France. The Corporation is also preparing to launch a network of four gaming centres known as *Ludoplexes*.

Loto-Québec returns the fruits of its commercial activities to the Government and to all of Quebec society. In recognition of its social responsibilities, the Corporation is committed to combating excessive gaming and to promoting healthy gaming behaviour. Moreover, it manifests its social commitment through the sponsorship of numerous events that bring people together throughout the province.

Financial Highlights

As at March 31 (in thousands of dollars)	2007	2006	% Variation
Total Revenues	4,298,832	4,016,030	(5.4)
Lotteries	1,842,414	1,860,630	(1.0)
Casinos	758,228	758,464	0.0
Restaurants	87,844	86,164	1.9
Lodging	16,218	14,716	10.2
Video Lotteries	1,097,847	1,298,805	(15.5)
Bingo	38,210	39,857	(1.2)
Multimedia	1,062	1,354	(21.6)
International	1,749		
Inter-Company Transactions	45,912	(43,960)	4.4
Prizes awarded – Lotteries	964,941	966,350	(0.1)
Prizes awarded – Bingo	18,000	18,294	(1.6)
Gross margin	2,368,743	2,532,509	(6.6)
Net earnings	1,448,063	1,613,943	(9.0)
Dividends	1,391,000	1,537,000	(9.5)
Other amounts contributed to the Québec and Canadian Governments	241,406	254,706	(5.2)
Total assets	1,077,513	1,005,120	7.2
Shareholder's equity	135,210	134,946	0.2



Total Revenues

(in millions of dollars)

2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
3,749.4	3,760.7	3,937.5	4,016.0	3,798.8

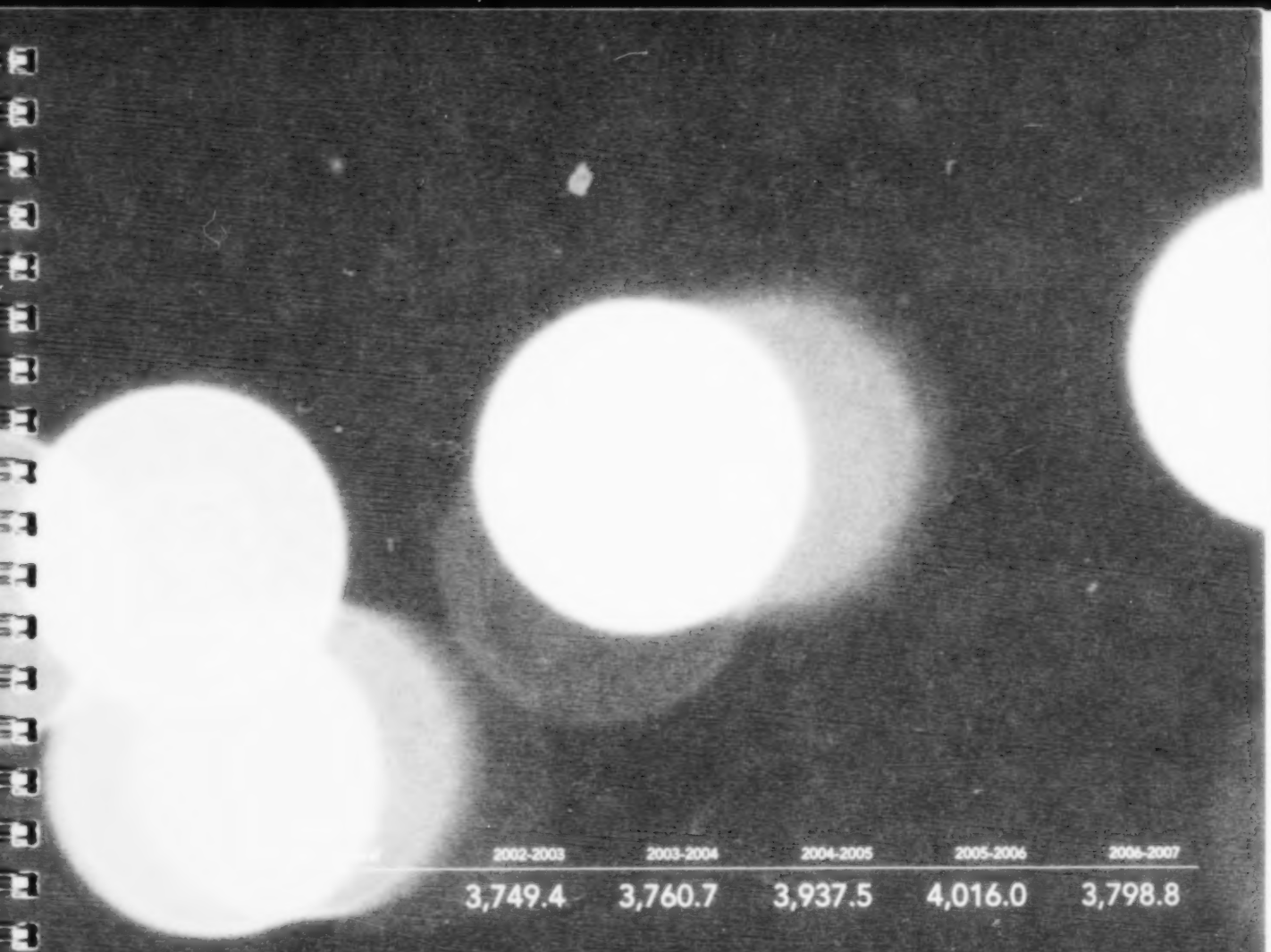
Net Earnings

in millions of dollars

2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
1,446.1	1,465.3	1,583.1	1,613.9	1,468.1

Financial Highlights

As at March 31 *(in thousands of dollars)*	2007	2006	% Variation
Total Revenues	3,798,832	4,016,030	(5.4)
Lotteries	1,842,432	1,860,630	(1.0)
Casinos	758,224	758,464	0.0
Restaurants	87,786	86,164	1.9
Lodging	16,214	14,716	10.2
Video Lotteries	1,097,917	1,298,805	(15.5)
Bingo	39,370	39,857	(1.2)
Multimedia	1,062	1,354	(21.6)
International	1,739		
Inter-Company Transactions	(45,912)	(43,960)	4.4
Prizes awarded – Lotteries	964,941	966,350	(0.1)
Prizes awarded – Bingo	18,010	18,294	(1.6)
Gross margin	2,364,144	2,532,509	(6.6)
Net earnings	1,468,065	1,613,943	(9.0)
Dividends	1,391,000	1,537,000	(9.5)
Other amounts contributed to the Québec and Canadian Governments	241,409	254,706	(5.2)
Total assets	1,077,615	1,005,120	7.2
Shareholder's equity	135,252	134,946	0.2



	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
	3,749.4	3,760.7	3,937.5	4,016.0	3,798.8

Net Earnings

(in millions of dollars)	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
	1,446.1	1,465.3	1,583.1	1,613.9	1,468.1

Economic

Contributions

- Dividends to the Québec Government: **$1.391 billion**
- Prizes awarded to lottery and bingo winners: **$983.0 million**
- Commissions and other compensations to lottery, video lottery and bingo network partners: **$390.2 million**
- Purchase of goods and services: **$432.1 million**
- Salaries and employee benefits: **$372.4 million**
- Taxes to governments: **$149.7 million**
- Special contributions to governments: **$91.7 million**

Social

Contributions

- Contribution to the fight against excessive gaming: **$27.5 million**
- Contribution to the Ministère de la Santé et des Services sociaux In aid of the elderly who have lost their autonomy: **$30 million**
- Contribution to the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation for agricultural fairs: **$5.5 million**
- Contribution to non-profit organizations: **$20.8 million**
- Fonds d'aide à l'action communautaire autonome: **$13.1 million**
- Fonds d'aide à l'action humanitaire internationale: **$2.6 million**
- Sponsorships: **$14.6 million**
- La Collection Loto-Québec: **$0.4 million**

Message from the President and Chief Executive Officer

Loto-Québec has been dealt a new hand. The era of continuous growth is a thing of the past, the role of gaming within our society has become an ever-growing preoccupation, and parallel gaming is developing on the very fringes of our legal framework. This new hand and the challenges it entails are raising important questions for us.

Due to the maturity of the gaming market in Québec, our revenues over the past five years have grown at a pace that has lagged behind the rate of inflation, recording gains as low as 0.5% in 2001-2002 and 0.3% in 2003-2004. Confronted with such modest progress, it was virtually inevitable that we would one day find ourselves in a negative zone, and the results of the past fiscal year indicate that that day has come, with both our revenues and profits showing declines as compared to fiscal 2005-2006.

More specifically, our consolidated revenues of $3.799 billion and our net income of $1.468 billion represent respective losses of $217.2 million (-5.4%) and $145.9 million (-9%) vis-à-vis the previous reporting period. For their part, the dividends totalling $1.391 billion that we remitted to our shareholder, the Government of Québec, constitute a decrease of $146 million.

This drop in our earnings marks a first in the history of Loto-Québec. However, thanks to the dedicated efforts of their respective teams, the Lottery, Casino and Bingo sectors succeeded in maintaining their earnings at the same levels as those of the past few years.

The declines posted during the year just ended are almost entirely attributable to the Video Lottery sector, whose earnings were down by $200.9 million as compared to the previous fiscal year. This major drop is due to two fundamental factors: the continuation of the video lottery network reconfiguration initiative in accordance with our 2004-2007 Development Plan, and the new stipulations of the anti-smoking legislation that came into effect on May 31, 2006. These two circumstances account for 28% and 72% respectively of the decline posted.

President and Chief Executive Officer, Alain Cousineau (centre), with his Senior Vice-Presidents (from left to right): Simon Brodeur, Marcel Croux, Lynne Roiter / Pierre Bibeau, Gille Dufour and Jean Royer

Significantly Reduced Accessibility

One of the principal objectives of Loto-Québec's Development Plan was to reduce accessibility to video lottery terminals (VLTs) in economically fragile zones and neighbourhoods where, historically, the population is more exposed to this type of gaming. Our decision to reduce the number of sites offering VLTs was based on various scientific studies that concluded that the risk of abusing video lotteries is correlated with the ease of accessibility to these games. Recently, an Australian study arrived at the same conclusions once again.

Our efforts to reduce access to VLTs where required by local socio-economic conditions were intensified during fiscal 2006-2007. As of March 31, 2007, our VLT network consisted of 2,905 sites, representing a decrease of 217 sites as compared to March 31, 2006. In all, 258 sites have been withdrawn from the network since the start of the network reconfiguration program, and other establishments are targeted to stop offering video lotteries during the course of the current fiscal year.

Implementation of Controlled Sites

In parallel with the significant reduction of accessibility to video lotteries within vulnerable sectors, our strategy is to concentrate a portion of the VLTs recuperated in four controlled sites known as *Ludoplexes*. The first two of these establishments will be opening their doors this fall in Trois-Rivières and Québec City, offering 200 and 335 units respectively. A total of 165 of these terminals have been in operation since 1996 — 65 at the Trois-Rivières hippodrome and 100 at the Québec City racetrack.

An agreement with the Ministry of Health and Social Services calls for the withdrawal of all VLTs within a 2.3-kilometre radius of our first two gaming centres. As such, 34 additional sites will be closed in Québec City and seven others in Trois-Rivières. That translates into a total of 47 sites to be shut down in Québec City and a total of 19 in Trois-Rivières between now and 2009.

Message from the President and Chief Executive Officer

Operational Integrity

In view of the importance we attribute to the integrity of our operations and the trust of the population, Loto-Québec wasted no time in reacting to the media revelations and the Ontario Ombudsman's report on the vulnerability of that province's consumers to possible fraudulent acts committed by lottery retailers.

Subsequent to the comprehensive analysis we conducted between October 2001 and October 2006, we were able to conclude that our retailers who win prizes of $50,000 and over do not win any more often than other lottery players, when taking their respective estimated ticket consumption into account. This finding was validated by the auditing firm of Samson Bélair / Deloitte & Touche, s.e.n.c.r.l. on the basis of the hypotheses provided and calculations of probability with respect to statistical norms. For the purposes of this audit, the firm called upon the expert services of a mathematics professor from the Université du Québec.

Moreover, in order to further ensure the validity of our findings, we entrusted the firm KPMG with a mandate to examine our prize payment processes and procedures so as to ascertain that risk is being correctly managed and, if applicable, to recommend any improvements that may need to be made.

Our Presence Abroad

No review of the past fiscal year would be complete without underlining our active presence on the international scene. In that regard, our Casino Mundial subsidiary devoted its concerted efforts to developing the commercial success of Moliflor Loisirs, a corporation in which Loto-Québec has held a 35% interest since March 2006 and which is the third largest casino operator in France. Our partners appreciate how Québec casinos operate and are reaping the benefits of our expertise to add value to their enterprise.

Our first year of presence in France generated total net earnings of $8.8 million, not including gains on currency. These earnings are particularly opportune in view of the decline in revenues posted by our activities in Québec.

While focused primarily on working with our business units to help implement new innovations, our research and development subsidiary, Ingenio, took full advantage of its expertise this past fiscal year to conclude agreements with five of the most important companies working within our industry abroad. These development and marketing agreements attest to Ingenio's outstanding reputation and to the high level of confidence it has earned.

Sustainable Development Policy

The Corporation's preoccupations in the area of environmental protection culminated during the past fiscal year with the adoption of a comprehensive sustainable development policy encompassing 11 specific commitments and 27 action strategies. This policy is inspired by the principles at the heart of the Sustainable Development Act adopted by the National Assembly in April 2006. Given the scope of the commitments undertaken and the measures implemented to assure effective monitoring, Loto-Québec is at the very forefront of public organizations and corporations targeted by this legislation.

Henceforth, sustainable development principles will be an integral part of all selection criteria used for the procurement of goods and services from our suppliers. Another tangible example of our environmental commitment is that all of the Corporation's real estate holdings have now earned Go Green certification from the Québec division of the Building Owners and Managers Association (BOMA). During its annual gala, this association also recognized Loto-Québec with the Building of the Year Award in the "100,000 – 249,000 square foot" category for its Multifunctional Complex in Montréal, as well as with the Earth Award for its Québec City office building.

2007-2010 Operational Planning

The challenges posed by the maturity of our market and the reconfiguration of our game offerings were the very foundation of an extensive and meticulous process of reflection that precipitated the preparation of our 2007-2010 Operational Plan. As part of this exercise, each corporate unit pinpointed its respective mission, identified specific issues being confronted, evaluated individual strengths and weaknesses, defined precise objectives, and decided on concrete action plans. The exercise also offered an opportunity to question ourselves on the evolution of Loto-Québec, and on its role, mandate and future directions. This reflection process will be completed this year and integrated into the Corporation's next Development Plan.

As is the case for all other public corporations in the world mandated to operate games of chance, one of Loto-Québec's raisons d'être is to organize gaming within controlled parameters and for the sole benefit of the general population. This role enables the Corporation to serve as a valuable bastion against illicit gambling.

However, according to all observers, illegal gambling has established a growing presence in our society, and this phenomenon is depriving the State of major amounts of legitimate revenue. Based on these observations, there is an undeniable and urgent need for clear reflection and concerted action, specifically with respect to gaming machines being operated in contravention of the regulatory framework, illegal sports betting, organized poker sessions, and Internet gambling.

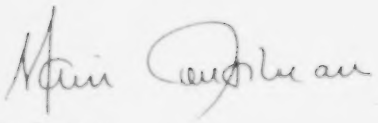
Act Respecting the Governance of Government Corporations

The recently adopted Act Respecting the Governance of Government Corporations impacts the administration of our organization in a number of different ways. Working in concert with the Corporate Secretariat, Loto-Québec's Board of Directors has already put certain required changes into place, most notably by restructuring advisory committees and designating individual Directors to now sit on each.

Acknowledgements

I would like to take the opportunity to thank my colleagues on the Board of Directors for their exceptional availability and constant support. My particular thanks go out to Mr. Robert Crevier, Me Serge LeBel and Ms. Solange Dugas, who have agreed to preside over the Board of Directors' Auditing, Governance and Ethics, and Human Resources Committees respectively.

The new hand that we have been dealt over the course of the past fiscal year poses a set of new challenges that can only be overcome through solid teamwork. I am confident from past experience that I can count on the outstanding ideas, energy and dedication of a seasoned Board of Directors, who, in turn, are supported by motivated managers and highly competent teams of employees. I thank each and every one of them for their past and future contributions.



Alain Cousineau
Chairman
President and Chief Executive Officer

Lotteries

Revitalizing the Product Line

Since Loto-Québec's earliest beginnings, lotteries have constituted the Corporation's most emblematic activity sector, the sector with the greatest overall clientele. This past year, a renewed product line and effective business strategies resulted in total sales of $1,842.4 million, comparable to levels posted during the past few fiscal years.

Evolution of Revenues Over the Past 5 Years

(in billions of dollars)	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
	1.834	1.813	1.857	1.861	1.842

Lotteries

Once again this year, lotteries brought bright smiles to the faces of many, like these lucky *Lotto 6/49* and *Celebration 2007* winners. ▶

During the year just ended, the sector continued to make dreams come true for many lottery enthusiasts. In April 2006, for example, a lucky resident of Saint-Félix-de-Valois claimed the largest grand prize ever awarded in Québec after winning the $30 million *Super 7* jackpot.

The Corporation recorded another milestone at the beginning of 2007 when it issued its one thousandth cheque of $1 million or more. In fact, 40 prizes of $1 million or more totalling over $300 million were awarded to lucky Québecers during the past fiscal year. In all, Loto-Québec paid out $964.9 million in prizes to winners over the course of fiscal 2006-2007.

A Renewed Product Line

True to their internationally recognized reputation as leaders within their industry, Loto-Québec employees again demonstrated their unparalleled dynamism and creativity through the numerous innovations introduced this past year, including:

- a new version of *Extra* launched in June
- a variety of new instant games such as *Uno*, *Sudoku*, *Scrabble* and *Yum*
- the *La Loterie Ma Maison* product, distributed throughout an extended network
- the addition of interactive components to various products
- the *Spécial Country* edition of *La Poule aux œufs d'or*, presented in conjunction with the Festival Western de Saint-Tite
- the addition of a hockey programme to the *Predictions* sports betting game
- the introduction of the *10 000 $ à l'heure* lottery, featuring draws every hour for 10 days, simultaneous dissemination of results via different platforms, and the possibility for consumers to download the results to their computer in real time
- the launch of *Grand Prix Casino*, the very first $20 instant game
- the introduction of *Vie de millionnaire*, the first online special edition guaranteeing players Canada-wide a $1 million grand prize per year for 25 years

Furthermore, in response to the lagging sales in the instant lottery category, a strategy aimed at reversing the trend was developed and will be implemented during fiscal 2007-2008.

Effective Marketing Strategies

A series of high quality advertisements that were designed and produced by local talent and very well received by the public were prepared in support of Loto-Québec's overall marketing efforts and to help maintain a positive corporate image. Some of these ads were recognized for their excellence with various prizes awarded locally and at international competitions.

Upon the request of other Canadian lottery corporations, Loto-Québec also designed and implemented a special advertising campaign for *Vie de millionnaire* that was launched throughout the country. Among the other publicity initiatives developed over the course of this past reporting period was the *alwaysbenice.com* interactive Web site aimed at promoting *Lotto 6/49*.

Implementation of Digital Displays

Loto-Québec pursued its efforts to modernize its image at points of sale this past year with the installation of an additional 250 digital displays near store cash registers. These units constitute a dynamic means of conveying information to consumers, particularly with respect to new products and jackpots currently being offered. This digital display network is undeniably among the largest projects of its kind in Québec and serves as a veritable technological proving ground for the Corporation that is paving the way for the pending installation of a new generation of gaming terminals.

Projects with Ma

Classified under the b
pharmacy chains, majo
retail sector rank amo
ness partners within it

During the past fiscal
taken that enabled the
with its major partners
implementation of c
collaborations in resear
at the creation of new
time, a variety of new
year that are currently

Responsible Prac

Within the entire sphere
of responsible gaming r
preoccupations. In tha
tion of a range of mor
that retailers comply w
lottery products to mir
prevention program,
unprecedented comm
launched, and the pha
Thus, retailers who faile
ing received an initial
sell lottery products re

A Sustained Presence in Living Rooms Across the Province

13

Lotteries

Commissions to Retailers

Commissions to Retailers
(in millions of dollars)

2002-2003	125.9
2003-2004	123.6
2004-2005	126.7
2005-2006	126.9
2006-2007	124.0

Financial Support to NPOs

	Number of NPOs	$ (millions of dollars)
2002-2003	1 282	10.5
2003-2004	1 269	9.9
2004-2005	1 375	10.5
2005-2006	1 445	10.3
2006-2007	1 390	9.9
2007-2008	1 348	9.4

Distribution of Retailers by Business Category

Distribution of Retailers by Business Category

(as at March 31, 2007)	Number	%
Grocery and Convenience Stores	1 058	34.1
Bars	1 044	33.6
Other Service Businesses	1 006	32.3
Pharmacies	200	6.4
Miscellaneous	277	8.9
Kiosks	121	3.9
Itinerant Sellers	37	1.2
Total	3 143	100.0

Online Lotteries						
Lotto 6/49	514,282	502,306	11,976	242,157	236,295	10,862
Super 7	255,163	243,266	11,897	159,306	136,847	22,459
Québec 49	54,017	52,367	1,650	22,515	28,169	(5,654)
Extra	157,766	143,764	14,002	71,099	64,606	6,493
Banco	128,483	123,819	4,664	88,501	83,179	5,322
La Quotidienne	34,404	32,963	1,441	16,320	14,083	2,237
L'Oeil Chanceux		1,919	(1,919)		1,736	(1,736)
Joker	4,632	8,030	(3,398)	2,076	4,580	(2,504)
Astro	6,744	3,472	3,272	3,560	1,699	1,861
Vie de Millionnaire	12,342		12,342	4,776		4,776
Subtotal	1,167,833	1,111,906	55,927	593,310	549,194	44,116
Instant Lotteries						
Instant Lotteries	126,816	154,650	(27,834)	86,399	87,730	(1,331)
Roberts	199,938	204,284	(4,346)	99,999	100,000	(1)
	943,505	870,396	73,109	443,030	220,360	222,670
	15,355	10,808	4,547	9,993	5,496	4,497
	2,986	1,848	1,138	1,944	2,009	(65)
	1,288,600	1,242,186	46,414	641,365	415,595	225,770
Traditional Lotteries						
	(5,240)	(5,040)	(200)	(2,564)	(2,564)	(0)
	(54,886)	(51,161)	(3,725)	(27,443)	(24,836)	(2,607)
	(47,534)	(47,468)	(66)	(27,667)	(20,937)	(6,730)
	(107,660)	(103,669)	(3,991)	(57,674)	(48,337)	(9,337)
Sports Betting	(31,403)	(41,554)	10,151	(24,284)	(27,014)	2,730
Total	1,149,537	1,096,963	52,574	559,407	340,244	219,163

Société des casinos du Québec

Sustaining Revenues Through a Customer-Focused Approach

Over the past year, the Société des casinos du Québec (SCQ) succeeded in maintaining its earnings at a level comparable to recent years. This positive performance was achieved in spite of the persistent competition posed by other forms of entertainment, the effects of the new tobacco legislation stipulations, the recurrent decline in tourist traffic, and the ever-growing competitive challenges resulting from increased game offerings within the northeastern part of the continent.

Evolution of Revenues Over the Past 5 Years

(in millions of dollars)	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
	747.5	776.9	757.9	758.5	758.2

Société des casinos du Québec

The past year was marked by three significant changes at the Casinos: the cashless system, the outsourcing of theatre management, and the major makeover of the Nuances Restaurant ▶

By effectively mobilizing all of its personnel, Loto-Québec's SCQ subsidiary was able to conclude the past reporting period with total revenues of $758.2 million, which is about equivalent to the earnings posted the previous year. For its part, Resto-Casino, which is responsible for administering food and beverage services at the three casinos and for operating the Hilton Lac-Leamy Hotel, recorded revenues of $104 million during fiscal 2006-2007, up 3.1% as compared to the previous year.

These results can be attributed to prudent management and to the dedication and commitment of the SCQ's 5,500 casino, restaurant and hotel employees. The results are also the product of the sustained efforts to improve operations at the subsidiary's various establishments, modernize equipment and installations, and assure the utmost in customer service.

2007-2010 Strategic Planning

This past year saw the preparation of a comprehensive strategic plan for the period spanning 2007 to 2010. The fruit of extensive research and reflection, this plan is of prime importance to the SCQ's ability to confront and overcome its formidable challenges. Not the least of these, for example, is the fact that while casino revenues seem to have reached a plateau, their operating costs continue to grow, particularly those related to employee salaries and benefits.

The SCQ's 2007-2010 strategic planning initiative offered significant new insights into the strengths and weaknesses of its various establishments and identified new business opportunities to counteract the factors posing the greatest threats.

One of the most concerning is the volume of gaming houses operating in nearby markets targeted by the SCQ. In fact, the number of competing establishments (casinos and racinos) in Ontario and the northeastern U.S. grew from 48 to 60 between 2002 and 2005. During the same brief three-year period, the number of slot machines operated by competing establishments rose by 23%.

Within the context of this arduous market environment, it is more vital than ever that the SCQ be able to secure a competitive edge by adopting a totally customer-focused approach that sets superior quality of service as its top priority and hallmark. It is this position that is at the very heart of the vision fuelling the initiatives outlined in its 2007-2010 Strategic Plan.

Modernization of Game Offerings

The SCQ has embarked on a project to equip all of its casinos' slot machines with a cashless payment system that will reduce to a minimum the need to handle cash in gaming areas. Patrons at the Casino de Montréal and the Casino du Lac-Leamy are already enjoying the benefits of this new technology, and the Casino de Charlevoix is slated to proceed with the implementation of the new system in autumn 2007.

Highly appreciated by casino patrons for its ability to enhance their gaming experience, the cashless payment system is already in place at the majority of gaming houses in North America. As such, the availability of the technology at Loto-Québec's three casinos will not only improve their competitive position, but the quality of their customer service and profitability of their operations as well.

On a related front, and as part of its commitment to continuously renewing its game offerings, the SCQ concluded a research and development agreement with Ingenio, filiale de Loto-Québec in fiscal 2006-2007. This accord calls for the creation of new game concepts and themes for its slot machines.

Outsourcing of Theatre Management

Subsequent to the release of a request for proposals, the management of the Casino de Montréal's and Casino du Lac-Leamy's theatres was entrusted to Productions 2P3. This consortium made up of Les Productions Phaneuf and Zone 3 combines the experience and expertise of two companies that have earned an excellent reputation within the province's entertainment and television sector. In awarding the mandate to Productions 2P3, the SCQ is in a position to further diversify the programming at these two theatres and better respond to the needs and expectations of its clientele.

International Market Development

Building on its outstanding reputation among its international high-limits clientele, the SCQ has undertaken a major effort to intensify its marketing efforts targeting "junket" players and, in the process, to review the overall operation of its International Development Department (IDD).

High-limits players generally call upon the services of independent agents to plan their trips and prepare their visits to the world's most prominent gaming houses. As such, the IDD has implemented a new operating structure to enable it to better respond to the expectations of these agents and the specific requirements of their clients.

As part of this modified structure, a new position has been created at each casino (two positions at the Casino de Montréal) responsible for junket clients. In addition to the implementation of the new operating structure, the respective roles and jurisdictions of each establishment have been more clearly defined so as to harmonize their actions and activities.

Major Economic Spin-Offs

During the past fiscal year, the SCQ acquired some $128 million worth of goods and services. Similarly, Resto-Casino remained an important customer for a large number of Québec-based companies in the agro-food sector.

The SCQ also contributed to the province's economic development by lending its financial support to a varied range of events offering tangible benefits to the tourism industry. More specifically, the subsidiary contributed close to $2.4 million through the sponsorship of some 23 different events, including the Grand Prix of Canada, the Rogers Cup, Les grands feux du Casino du Lac-Leamy, and the Domaine Forget International Music Festival.

Société des casinos du Québec

The Montréal, Charlevoix and Lac-Leamy Complex gaming houses are shining brighter than ever. ▶

Casino de Montréal

The Casino de Montréal posted total earnings of $506.4 million during fiscal 2006-2007, representing a slight increase of 1.1% vis-à-vis the previous year. Having played host to some 74 million visitors since opening its doors in 1993, the gaming house nestled on Île Notre-Dame continued to make a significant contribution to Montréal's tourism industry over the course of the year just ended.

The pride of the Casino de Montréal, the *Nuances* gourmet dining room retained the *Five Diamond* rating it has earned from the CAA and AAA automobile associations. In addition, the *Nuances* underwent an extensive makeover, revitalizing everything from its menu and décor, to its place settings, graphic signature and service staff uniforms. Carried out under the theme, *Awakening of the Senses*, this thorough rejuvenation called upon the creativity and craftsmanship of an entirely home grown team of designers and artisans.

For its part, the Cabaret du Casino presented 17 dazzling productions during the year. A total of 447 matinee and evening performances were staged to the delight of enthusiastic audiences numbering close to 180,000.

Casino de Charlevoix

Up 4.9% over the previous year at $49.9 million, the Casino de Charlevoix's 2006-2007 revenues were at the highest level in the establishment's history. This positive performance is all the more noteworthy in light of the labour conflict that plagued the Fairmont Le Manoir Richelieu Hotel during 2005-2006 and resulted in a marked reduction of visitor traffic at the gaming house.

The Casino de Charlevoix welcomed its 12 millionth visitor during the year just ended. Playing host on average to more than one million visitors each year since its opening in 1994, the establishment serves as a major asset to the development of tourism within the region.

Once again this year, the Casino and the Fairmont Le Manoir Richelieu were the recipients of several awards and distinctions. For instance, the *Le Charlevoix* Restaurant and the Fairmont Le Manoir Richelieu both retained their CAA *Four Diamond* designation, while *Le Charlevoix* was recognized by *Wine Spectator* Magazine for the excellence of its wine list. Ranked on the Gold List of *Condé Nast Traveler*, the Fairmont Le Manoir Richelieu is also listed as a *Five Star* establishment by Hébergement Québec, and the Hotel's golf course was named as the best new Canadian course in 2006 by the prestigious *Golf Digest* Magazine.

Lac-Leamy Complex

The Casino du Lac-Leamy posted revenues of $201.9 million in fiscal 2006-2007, a 3.9% decline as compared to the previous year. This decrease reflects the particularly high level of competition confronting the establishment within its immediate market.

The Casino actively pursued the review of its operations during the year just ended in order to improve its efficiency and better meet the expectations of its clientele. Involving the participation of a broad group of managers and employees, this exercise has generated various improvements at the establishment, including the formation of a new team responsible exclusively for customer service. Ultimately, the Casino is now better able to innovate within its market and satisfy the needs of its various clienteles.

The Hilton Lac-Leamy Hotel was once again honoured by the Hilton Corporation this past year with three awards of excellence. For the fourth time since opening in 2001, the Hotel received the award for best overall performance in North America in the Business Hotel category, marking the very first time in the history of the Hilton chain that the same establishment earns this prestigious distinction three years in a row. In addition, the Hotel was the recipient of awards for best restaurant and best restaurant service, and it retained the CAA/AAA *Four Diamond* rating and Tourisme Québec's *Five Star* designation.

For its part, the Casino du Lac-Leamy's *Le Baccara* Restaurant earned the *Five Diamond* rating for the seventh consecutive year. Synonymous with high gastronomy, this rating is among the most coveted within the North American restaurant sector.

Total Revenues

As at March 31
(in millions of dollars)

	2006-2007	2005-2006	Variation
Casino de Montréal	506.4	500.8	1.1%
Casino de Charlevoix	49.9	47.6	4.9%
Casino du Lac-Leamy	201.9	210.1	(3.9)%
Total	758.2	758.5	–

Société des loteries vidéo
du Québec

Reshaping

its Network

In a state of continuous growth since its creation, the Société des loteries vidéo du Québec (SLVQ) posted its first ever decline in revenues and net income this past fiscal year. Two essential factors account for these declines: the reshaping and resulting reduction in size of the network, and the new stipulations of the anti-smoking legislation. In fact, never has this network consisted of fewer sites since its initial implementation in 1995. Within this challenging context, responsible management remained at the heart of the subsidiary's priorities and preoccupations.

Evolution of Revenues Over the Past 5 Years

(in billions of dollars)	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
	1.077	1.129	1.237	1.299	1.098

The SLVQ terminated fiscal 2006-2007 with total revenues of $1.098 billion and net income of $710.8 million, representing respective declines of 15.5% and 17.4% over the previous reporting period. For their part, commissions and other financial compensations paid to operators amounted to $251.8 million.

Factors Accounting for the Declines

Having come into effect on May 31, 2006, the new stipulations of the tobacco legislation had a marked impact on bar traffic and constitute the principal reason for the losses recorded by the SLVQ.

Another major factor contributing to the lower earnings of the past year was the diminished size of the video lottery terminal (VLT) network. Undertaken as part of Loto-Québec's 2004-2007 Development Plan and subsequently intensified with the voluntary withdrawal programs offered to certain categories of retailers, this downsizing of the SLVQ's network continued over the course of fiscal 2006-2007 with the elimination of an additional 217 sites, thus bringing the total reduction of sites to 758 since the start of the network reconfiguration program.

In parallel with this effort, the Government moratorium on the issuance of video lottery operating permits was maintained for a fifth consecutive year. As at March 31, 2007, the Corporation's VLT network was comprised of 12,779 terminals in operation at 2,905 sites. Moreover, Loto-Québec has VLTs in reserve that will be relocated to gaming centres when they open, at which time the number of units could reach a maximum of 13,570, in accordance with the Corporation's 2004-2007 Development Plan.

New Responsible Management Measures

A compensatory voluntary removal program is now being offered to retailers located within a 2.3-kilometre radius of the future Québec City and Trois-Rivières gaming centres. With this program in place, there will be fewer game offerings within zones situated in proximity to these gaming centres.

Moreover, the racetracks located in Montréal, Québec City and Trois-Rivières henceforth offer the same types of terminals as those in place at the network's other establishments since 2003. These units are all equipped with features designed to promote responsible gaming.

Some 11,000 individuals employed at bars, brasseries and taverns in the province participated in the *Taking Risks Is No Game 2* training program during the year just ended. The purpose of this training is to enable bar owners and their employees to be in a position to assist excessive gamblers, without, of course, attempting to play the role of professionals specialized in the field of problem gaming.

A preliminary assessment of this training conducted by researchers at Université Laval has revealed that retailers and employees feel much more able to detect situations of excessive gaming. Other analyses are currently underway in order to arrive at a final evaluation of this training initiative.

Typical Player Profile

The SLVQ also conducted another study to determine the profile of the typical Québec video lottery enthusiast. Based on the results of this research, the average age of VLT players is 37, with 66% of these individuals being males, 51% being married or living in a couple relationship, and 53% having completed a college or university education. A total of 80% of respondents indicated that they set a budget before playing, and the majority affirmed that they respect that budget.

For 77% of players, video lotteries constitute a part of an overall entertainment experience. These individuals will frequent an establishment for the initial purpose of enjoying a drink, having a meal, playing some billiards, or meeting up with friends to socialize. Finally, close to 75% of the people consulted indicated that they play video lotteries in the company of friends (50%) or their spouse (20%).

Maintaining an Innovative and Responsible Approach

The SLVQ continued to demonstrate its internationally recognized leadership in the responsible marketing of video lotteries over the course of the past fiscal year. For example, the *Taking Risks Is No Game 2* training program and the subsidiary's Code of Responsible Marketing generated a high level of interest at the 13th International Conference on Gambling & Risk Taking organized by the University of Nevada. Unique within the industry, this set of principles encompasses a total of 20 obligations that each bar owner offering video lotteries is urged to respect.

Outlook

In line with the principles outlined in Loto-Québec's 2004-2007 Development Plan, the SLVQ intends to consolidate its new marketing approach and continue to offer an enjoyable form of entertainment in a responsible fashion. In so doing, the subsidiary will pursue the reconfiguration of its VLT network so as to reduce accessibility while minimizing the risk of illegal units emerging. In order to fulfill this commitment, the SLVQ will ensure that game offerings remain at a sufficient level and as geographically diversified as possible.

Video Lotteries

As at March 31, 2007

Number of Terminals	12,779
Number of Sites	2,905
Average Number of Terminals per Site	4.4
Commissions to Retailers *(in millions of dollars)*	241.5

Distribution of Sites and Terminals by Region

As at March 31, 2007

Region	Number of Terminals	Number of Sites
Laval, Laurentians, Lanaudière	2,065	446
Montréal	3,770	745
Québec City, Chaudière, Appalaches	1,509	361
Mauricie, Bois-Francs	863	212
Estrie	749	184
Saguenay, Lac Saint-Jean, North Shore	625	169
Lower Saint Lawrence, Gaspésie, Îles-de-la-Madeleine	401	123
Abitibi, Témiscamingue, Northern Québec	419	101
Montérégie	1,606	389
Outaouais	772	175
	12,779	2,905

Société des bingos du Québec
A Fragile Sector Achieving Major
Accomplishments

27

Société des bingos du Québec

The mandate of the SBQ is to create and market network bingo games in order to financially support non-profit organizations (NPOs) that hold bingo permits. All profits generated through the marketing of the subsidiary's products are distributed directly to these organizations.

The SBQ offers three different network bingo products – Le Tout Fou in the afternoon, Le Grand Tout in the evening, and Le Tout Fou Extra-Lucratif afternoons and evenings. These products are available simultaneously in 111 bingo halls, including the biggest locations in Québec.

Despite an 11% decline in bingo hall traffic since the new stipulations of the tobacco legislation came into effect on May 31, 2008 prohibiting smoking in public places, the SBQ succeeded in almost maintaining its 2006-2007 revenues at the previous year's level. During the past fiscal year, the subsidiary posted total earnings of $39.6 million, representing only a slight decrease of 1% as against fiscal 2006-2007.

Of the $10.9 million contributed to NPOs holding bingo licenses, $10.2 million went to 786 organizations that organize their events at halls connected to the SBQ network, and $713,000 was distributed among another 215 organizations holding bingo games in non-participating halls.

Marking its 10th anniversary in December 2007, the SBQ will have contributed close to $100 million to NPOs since its creation, which translates into approximately $10 million per year.

Initiatives Bearing Fruit

The SBQ's positive financial performance of the past year is the result of the improvements made to its product and of its efforts to enrich the entertainment value of the bingo experience in order to attract new players to its halls. From the launch of the improved version of Tout Fou to the use of the Internet to promote Le Tout Fou Choice, to the introduction of the popular new La Grande Loterie draw, the SBQ worked to offer its existing bingo enthusiasts a more attractive choice of products and playing options.

In parallel with these initiatives, the SBQ organized a number of effective product promotions and resumed its Place à l'animation summer tour to promote bingo among the general public. As well, the subsidiary maintained events like Célébration au jackpot, which spotlights major wins by consumers. The typically festive atmosphere that reigns at these types of events goes a long way in promoting bingo as a highly entertaining pastime.

An Industry Confronted with Formidable Challenges

Over the past few years, Québec's bingo industry has seen a significant decline in revenues generated by its traditional products. The general aging of its clientele, the fact that this form of entertainment is often associated with a bygone era, and the restrictions posed by existing regulations are the principal factors fuelling the difficult challenges of renewing the sector's client base and boosting bingo hall traffic.

Furthermore, the application of the tobacco legislation's new stipulations certainly did not help to improve the industry's already precarious situation. With close to half of bingo enthusiasts being smokers, the SBQ has had a dramatic effect on bingo hall traffic. In fact, several NPOs have had to abandon their bingo activities during the past year, while others may need to follow suit if they cannot succeed in keeping their operations profitable.

As such, the SBQ is likely to be confronted with formidable challenges over the coming years. Nevertheless, the subsidiary remains committed to finding effective ways to maintain its revenues in spite of the diminished attendance at its halls and the declining numbers of people playing the game.

New directions will also have to be developed in conjunction with the regulations to soon be implemented by the Régie des alcools, des courses et des jeux aimed at enabling the industry to compete more effectively with other forms of gaming. Within the context of this evolving environment, the SBQ must review its product strategies in order to maintain the appeal of network games and to promote client loyalty and increased attendance at participating halls.

Outlook for 2007-2008

The next few years will certainly be decisive ones for the bingo industry. In addition to consolidating positive business relations with its partners for the ultimate benefit of NPOs, the SBQ is committed to offering increasingly more attractive products and to expanding its client base. To do so, the subsidiary intends to invest in research and development, to create new families of games, and to explore new modes of distribution. It will also actively pursue its marketing efforts and launch various initiatives aimed at increasing public interest in network bingo, with the overall objective being the sustainable revival of this gaming sector that is so vitally important to the financial health and worthy activities of non-profit organizations.

Sales by Region

April 1, 2006 - March 31, 2007

Region	Participating NPOs	Events	Participating Halls*	Net Sales	Commission Paid to Operators	Amount Distributed to Participating NPOs		
						Sum Paid According to Agreement	Additional Payments up to 100% of Net Profits	
				$	$	$	$	$
Lower Saint Lawrence	4	619	29	339,636	17,632	67,140	20,998	
Québec City	11	3,785	98	4,302,424	268,230	851,791	265,997	
Chaudière-Appalaches	6	1,084	24	1,079,184	62,480	213,509	66,721	
North Shore	2	153	3	136,644	5,157	27,079	8,448	
Saguenay Lac St-Jean	5	966	30	849,535	49,596	167,947	52,522	
Mauricie, Bois-Francs	5	1,641	47	2,120,792	130,982	418,960	131,138	
Estrie	3	948	23	1,144,529	71,303	226,364	70,760	
Montérégie	18	5,371	148	7,699,356	468,031	1,520,256	476,038	
Montréal	17	7,328	146	9,366,691	582,381	1,853,593	579,894	
Abitibi-Témiscamingue	2	488	25	425,375	24,996	142,820	57,211	
Outaouais	5	1,342	46	1,335,078	79,631	263,580	82,541	
Laval	4	2,016	61	2,572,726	166,336	529,987	165,381	
Lanaudière	10	2,906	66	3,689,685	242,796	801,381	250,780	
Laurentides	10	2,965	67	3,791,467	199,386	636,766	171,963	
Gaspésie	5	668	16	694,765	35,102	109,885	33,088	
Total (excluding Internet)	106	39,496	784	48,664,867	3,354,792	11,782,176	3,424,748	15,206,924
Bingo Network (Internet) (excluding NPOs)								760,000
Grand total for NPOs								15,966,924

* Some halls are located in more than one region.

30

Ingenio

A Catalyst Fuelling

Innovation

As Loto-Québec's subsidiary dedicated to research and development, Ingenio works hand-in-hand with the Corporation's various business units in order to diversify their products and help them realize new innovations. The subsidiary also actively pursues opportunities for exporting its know-how to international markets by forging new game design and multimedia product supply agreements with foreign partners.

Ingenio

Developing innovative products with great commercial potential on the international scene.

The research and development field is relatively new within the gaming industry, and Loto-Québec is one of the few lottery corporations in the world to have created a subsidiary exclusively for that purpose. Ingenio conducts applied research aimed at the development of innovative new products, as well as fundamental research whose goal is to foster better understanding and mastery of certain phenomena, such as the dynamics of gaming, the convergence of different gaming sectors, and the multiplicity of gaming platforms.

Five Agreements with Major Partners

Ingenio carries out the bulk of its work in collaboration with other public corporations or foreign companies involved in the gaming sector. During the past fiscal year, the subsidiary concluded or renewed five important agreements with leading players in the industry - Bally Technologies, Pollard Banknote, Betware, GameLogic and Scientific Games International. These contracts will influence the direction of Ingenio's research efforts, while helping the subsidiary to amortize its operating costs.

Within the casino sector, Ingenio established a long-term strategic alliance with Bally Technologies aimed at providing gaming houses with a more dynamic range of offerings and players with a richer and more enjoyable gaming experience. As part of this agreement, Ingenio's team created three new slot machine games - *Hatch the Cash* (*La Poule aux œufs d'or*), *Groovy Machine* and *Dog Show*. Featuring an original graphic aspect and offering superior entertainment value, these games made their first public appearance at Bally's booth at the *Global Gaming Expo* held in November 2006 at Las Vegas. The new games are currently undergoing certification by the various regulating authorities, the final step before being offered in casinos.

The year just ended also saw Ingenio initiate research and development work in collaboration with the Société des casinos du Québec and its gaming houses in order to explore innovative new directions in casino game offerings.

Within the lottery sector, Ingenio renewed its distribution agreement with Pollard Banknote and signed three new agreements with major partners Betware, GameLogic and Scientific Games International authorizing them to offer its games around the world. Certain agreements call for the use of Ingenio's patents on the concept of interactive, predetermined outcome instant lotteries with access codes.

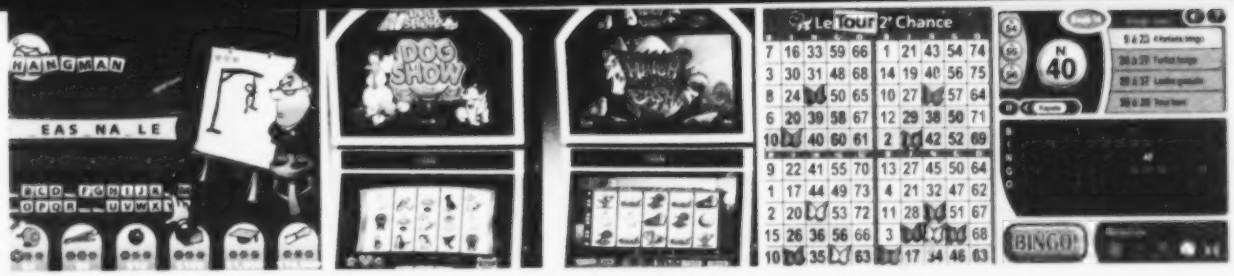
Multimedia Lotteries As Popular As Ever

Four marketing agreements were concluded for Ingenio's multimedia lottery products during fiscal 2006-2007. In addition to Loto-Québec itself, the Western Canada Lottery Corporation and the Atlantic Lottery Corporation both added new products to their multimedia game offerings. For their part, the Oregon Lottery and New Jersey Lottery maintained their existing portfolios, which did not, however, generate any new revenues for Ingenio over the course of the year.

Developed during fiscal 2005-2006, the new family of short-duration interactive lotteries known as *Jeux Éclair* grew larger with the addition of certain games this past year. On a related front, in collaboration with Loto-Québec's Icelandic partner, Betware, the British Columbia Lottery Corporation (BCLC) became the first lottery corporation in March 2007 to market *Jeux Éclair* online on its PlayNow site. Other lottery corporations are expected to follow suit.

Entry into the World of Bingo

During the previous reporting period, Ingenio also collaborated on two important projects with Loto-Québec's Société des bingos du Québec (SBQ) subsidiary. More specifically, the SBQ took advantage of Ingenio's expertise to conclude an agreement for the utilization of *Bingo 2000* software by the BCLC. This network bingo management software developed by the SBQ was ideally suited to meet the BCLC's specific needs, and the transaction served to reaffirm the value of the bingo subsidiary's intellectual property.



In addition, the SBQ's launch of the *Grande Lisière*, a bingo strip combining several cards, required the adaptation of *Tour 2e chance*, a promotional bingo game for the Internet previously developed by Ingenio. This game has been highly popular with players in bingo halls since being introduced online in June 2006.

Lending Technical Support to the Fondation Mise sur toi

In fiscal 2005-2006, Ingenio offered its technical expertise to the Fondation Mise sur toi for the design and development of an information console presenting the *8/8 The Winning Combination* questionnaire, a valuable tool enabling users to acquire a profile of their gaming behaviour. This past year, Ingenio created a Web-adapted version of this effective tool that is now accessible on the Internet at 8sur8.com.

Revenues That Reflect a Prudent Market

During the past fiscal year, Ingenio posted total earnings of $1.1 million, down 21.6% from the previous reporting period. These results are a reflection of the fact that potential customers are presently showing considerable prudence with respect to multimedia lottery games in light of the legal proceedings launched by Ingenio against two companies (and settled out of court) to protect its intellectual property rights. In the United States, in particular, this state of prudence is also being fuelled by the legislative uncertainty and legal confusion surrounding Internet sales and online gaming.

Sustaining an Active Presence Within the Multimedia Milieu

Ingenio continues to demonstrate its commitment to Québec's multimedia sector by maintaining its solid partnership with Alliance NumériQC, a network of local multimedia and interactive digital content professionals. This role as a major partner confirms the importance of Ingenio's involvement in the network. Loto-Québec's R&D subsidiary is also a member of the Information and Communication Technology Cluster of Greater Montréal.

Moreover, for the past seven years, Ingenio has been proudly presenting a prize of $5,000 to the designer of the best interactive multimedia entertainment project under the banner of the prestigious Québec Entrepreneurship Competition. The subsidiary also awards a $2,000 prize at the National Animation and Design Centre's annual graduates gala, as well as lending its support to Cybercap, an organization devoted to the social and professional integration of young dropouts through multimedia.

Priorities for 2007-2008

Among Ingenio's priorities for fiscal 2007-2008 are the following:

- Preserving its assets by optimizing the fruits of existing partnerships
- Continuing to diversify its leading research and development activities by realizing the most innovative projects with solid commercial potential or which have intrinsic value for Loto-Québec and its subsidiaries
- Intensifying efforts to promote its products and expertise in foreign markets

Société des salons de jeux du Québec

First Two Gaming Centres

Preparing for Launch

Following an intensive planning phase, the development of an organizational structure, the release of calls for tender, and the start-up of construction work, the first two Loto-Québec gaming centres, known as *Ludoplexes*, are slated to open at Trois-Rivières and Québec City respectively in autumn 2007. In the meantime, the Société des salons de jeux du Québec (SSJQ) is pursuing its talks with the local and regional authorities and parties concerned and is preparing the appropriate security, control and awareness measures aimed at ensuring responsible gaming.

Société des salons de jeux du Québec

Great care has been taken with the design and aesthetics of the two Ludoplexes.

The preliminary development of the two sites started in autumn 2006, followed by the construction of the buildings themselves during the winter. Work is expected to continue until the beginning of the fall of this year in accordance with the established timetable. The Trois-Rivières gaming centre is scheduled to open its doors in October, while the Québec City facility should be inaugurated in November.

A great deal of attention was paid to the functional, aesthetic and design aspects of the buildings in order to ensure a dynamic character and provide patrons with a fully secure environment.

The SSJQ is also firmly committed to designing, building and operating its gaming centres in full compliance with solid sustainable development objectives. As such, the centres will conform to a series of standards established by the international Leadership in Energy and Environmental Design organization.

Important Economic Benefits

The establishment of Loto-Québec's first two gaming centres will generate important economic benefits. For example, the SSJQ is investing some $66 million in the two projects – $49 million for construction and site development, and close to $17 million for equipment acquisition. These investments and the subsequent operating expenditures, including the purchase of goods and services and income taxes, will yield direct benefits for the local and regional communities. In all, some 120 requests for proposals will have been solicited to realize the design and construction of the two facilities.

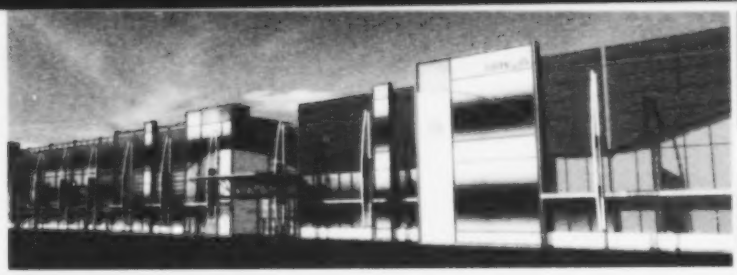
The Corporation estimates that the Québec City gaming centre will employ approximately 200 individuals, while close to 150 will find work at the Trois-Rivières establishment. The majority of these jobs will be created by private firms to be awarded the mandate by the SSJQ for the management of daily operations.

A Firm Commitment to Responsible Management

SSJQ management has organized a host of meetings and presentations in the Trois-Rivières and Québec City regions in order to confirm and explain its commitment to operating its entertainment facilities in a responsible fashion.

Numerous security, control and sensitization measures will be applied as soon as the gaming centres are opened, starting with the restriction of access to individuals aged 18 and over. In addition, the presence of surveillance and monitoring stations and security agents will allow the public to enjoy a totally safe environment, and a self-exclusion program similar to the one in place at Québec casinos will be implemented.

There will be no bank wickets in the gaming areas, and the cashes will allow for no debit card withdrawals or exchange of personal cheques for cash. Moreover, the consumption of alcohol will be strictly prohibited in the gaming areas, and all preventive measures that apply to video lottery terminals in bars will be in effect at the gaming centres as well.



Players interested in determining their gaming profile and assessing their propensity for excessive gaming will have access to the appropriate documentation and tools. These include the *8/8 The Winning Combination* information console, an initiative of the Fondation Mise sur toi.

All gaming centre personnel in direct contact with patrons will receive training designed to enable them to detect individuals showing signs of distress. These players will be singled out and offered timely referral to the services of a qualified counsellor at a local support centre specialized in the treatment of problem gamblers.

Another major measure to be implemented at the gaming centres is a new system that will oblige every player to possess a responsible gaming card. This card will be required in order to start a gaming session, and cardholders will have to set the maximum amount they wish to spend on playing during their visit. Once this amount is reached, the card will be deactivated. To be used totally anonymously by players, the responsible gaming card will not enable gaming centre management to conduct any targeted monitoring whatsoever for promotional purposes. Furthermore, the SSJQ will apply Loto-Québec's advertising code of ethics to the operation of its gaming centres, and absolutely no advertising or promotional activities focused on gaming will be conducted.

The new gaming centres are being implemented in accordance with the stipulations outlined in Loto-Québec's 2004-2007 Development Plan. In response to the recommendations of researchers, the Corporation committed to reconfiguring its video lottery network by relocating a portion of its units in specially controlled sites able to restrict access.

A Simple and Effective Organizational Structure

Developed with simplicity and effectiveness in mind, the administrative structure put into place by the SSJQ is perfectly adapted to the gaming centre concept and its mode of operation through outsourcing. The project team is currently made up of 25 individuals, with other qualified personnel to be added as the opening dates draw nearer. Once the Trois-Rivières and Québec City sites will have officially opened their doors, the SSJQ will have approximately 20 managers and professionals on staff at its head office, along with 14 employees at each establishment. The remaining personnel to be assigned to operational duties will originate from the private sector.

Priorities for 2007-2008

The completion of construction work on the two gaming centres, the final phases of development, and the site openings in the fall will monopolize much of the SSJQ's time and resources during the coming months. In addition, the group plans to actively pursue the design, construction and development of the Mont-Tremblant gaming centre, which is currently scheduled to open in early summer 2008. A fourth centre will also eventually be established on the northern fringe of Montréal adjoining a racetrack to be built by the firm Attractions Hippiques Québec.

Casino Mundial
A Fruitful Initial Year Within the French Market

A coproprietor of the French Moliflor Loisirs Group since March 2006, Loto-Québec's Casino Mundial subsidiary was actively involved during this initial year in maximizing the value of its investment through the effective provision of services as per the terms of the agreement concluded with its business partners. The acquisition over the course of the past year of a casino in Sables d'Olonne and the authorization of construction of a new gaming house in Sanary-sur-Mer confirm the potential of this strategic partnership.

Two of the Moliflor Loisirs Group's prize jewels: the future Sanary-sur-Mer casino and the Sables d'Olonne Casino des Pins.

Created in 2002, the Casino Mundial subsidiary's mission is to promote Québec expertise and know-how on the international scene in casino design, implementation and operation. At the same time, the subsidiary is responsible for pursuing related business opportunities able to generate economic spin-offs for the province.

Towards the end of 2005, Casino Mundial was approached by the European Bridgepoint Capital investment corporation to participate in the financing required to acquire the Moliflor Loisirs Group, the third largest casino operator in France with a portfolio of 21 gaming houses and a market share of approximately 9%.

On March 30, 2006, Casino Mundial finalized its participation with a 35% interest in Moliflor Loisirs, representing an investment in the order of $90 million. The co-shareholders are Bridgepoint Capital (55%) and the Moliflor Group's management team (10%). During 2006, Moliflor Loisirs generated total revenues of close to 260 million euros.

According to the terms of the service contract stipulating operational collaboration between Casino Mundial and Moliflor Loisirs over an initial period of three years, the managing director of Casino Mundial is responsible for the Group's development activities, and Loto-Québec is to provide all its expertise and resources in order to maximize Moliflor's overall development and profitability. The principal services supplied to date include the following:

- Preparation of candidacy files subsequent to the release of municipal tenders for the construction and operation of casinos in Villeneuve-Loubet and Lille, the latter municipality having ultimately selected another casino operator
- Acquisition of the Casino des Pins in Sables d'Olonne
- Analyses of potential casino acquisition opportunities
- Implementation of a customer loyalty program at Moliflor casinos
- Provision of real estate development support services
- Preparation and dissemination of an employee training program on conflict management
- Development of a predictive model to assess the revenue potential of French casinos

With its investment in Moliflor during 2006-2007, Loto-Québec has successfully consolidated its earnings before interest charges in the order of $17 million derived from:

- $1.7 million in service revenues
- $7.1 million in interest revenues
- $8.1 million in gains on currency
- $1 million in income consolidation

During fiscal 2007-2008, Casino Mundial intends to maximize the return on its investment in Moliflor while optimizing the synergies that the French Group can draw upon from its association with Loto-Québec.

Review of Management Activities

Corporate Secretariat, Legal Affairs and Internal Auditing

The Office of the Corporate Secretariat and Vice-Presidency of Legal Affairs offers a wealth of expertise within its various areas of responsibility. More specifically, its personnel provide services and professional counsel in support of the Corporation's objectives and so as to help achieve the desired balance between its business mandate and social responsibility. The Vice-Presidency is involved on a daily basis with business units and other corporate sectors, providing legal support to assure operational integrity. In addition to the Corporate Secretariat and legal affairs, the Office looks after internal auditing, document management, the Fondation Mise sur toi, and the Secretariat of the World Lottery Association.

Corporate Secretariat

Over the course of the past fiscal year, besides coordinating Loto-Québec's Board meetings and those of its subsidiaries, developing internal policies, following up on access to information requests, and consolidating the information exchange network, the Corporate Secretariat provided the legal framework required for the implementation of the new Public Corporation Governance standards.

Responsible for obtaining patents and trademarks for the Corporation and its subsidiaries, as well as for the awarding of licenses, the Secretariat took a number of concrete actions during the past fiscal year to protect the organization's intellectual property and promote recognition of its patents within the gaming industry, most notably by settling disputes and signing licenses with major international game suppliers like Gtech and Scientific Games.

In 2007-2008, the Corporate Secretariat will focus its efforts on integrating new governance standards into Loto-Québec's operations, along with the obligations prescribed by the new legislative stipulations in the area of access to information. Moreover, the Secretariat will work to sensitize business units to the importance of reinforcing the Corporation's intellectual property and to provide its various sectors with the information they require to realize their business plans.

Legal Affairs

During the year just ended, the Legal Affairs Department was closely involved in the negotiation and preparation of contractual agreements related to the replacement of some 8,000 lottery terminals, the management of the Casino de Montréal's and Casino du Lac-Leamy's theatres by the private sector, and the transaction via which Loto-Québec became the sole proprietor of the building housing its head office by purchasing the 50% share held by the Caisse de dépôt et placement du Québec.

In addition, the group played an integral supporting role in the implementation of measures aimed at reconfiguring the video lottery terminal network and the establishment of the gaming centres. In that particular regard, the group participated actively in reviewing the calls for tender and concluding the agreement with the purchaser and operator of racetracks, Attractions Hippiques Québec. Over the coming year, the Department will also be providing its support on various construction files. In parallel with these endeavours, considerable effort will continue to be devoted to the preparation and management of the files in defense of the Corporation with respect to the class action proceedings launched by compulsive gamblers concerning video lottery terminals.

Internal Auditing

Loto-Québec's Internal Auditing Department is responsible for helping to effectively control the activities of the Corporation and its subsidiaries so as to assure the integrity of operations. Over the past year, Internal Auditing fulfilled various different mandates concerning the integrity of gaming operations. In addition, the team launched a project aimed at establishing and testing critical controls for the entire organization. During the coming fiscal year, the group will complete the critical controls project and work on implementing an integrated risk management sector. These initiatives are part of the various measures put forth by Loto-Québec to ensure compliance with the Act Respecting Public Corporation Governance.

Review of Management Activities

Fondation Mise sur toi

Since its creation in 2002, the Fondation Mise sur toi has been dedicating its efforts to preventing excessive gaming, promoting healthy gaming behaviour and protecting individuals at risk. The Fondation is actively involved in the implementation and continuous improvement of prevention tools within Loto-Québec's various activity sectors, as well as in the promotion of the 1 866 SOS JEUX hotline created to provide assistance to people and their loved ones dealing with the effects of compulsive gambling.

During 2006-2007, the Fondation Mise sur toi played a key role in the organization of a comprehensive awareness program aimed at Loto-Québec clientele and personnel. Based on an evaluation conducted among 1,054 Québec adults, the campaign's rate of recognition was at 83%. No fewer than 94% of respondents indicated having become aware of the existence of a help hotline, and 90% learned that the outcome of gaming is determined purely by chance. In addition, some 88% of people surveyed agreed that the campaign was helpful, and 75% expressed that it helped them identify excessive gaming behaviour.

The *Gambling: Help and Referral* hotline received more than 5,590 calls during the three-month campaign, one of the greatest increases in call volume over the past seven years.

The Fondation Mise sur toi will be launching a major new prevention and sensitization campaign among the general public and employees of Loto-Québec and its subsidiaries in the fall of 2007. In the meantime, responsible gaming workshops continue to be offered to the organization's personnel.

During the past fiscal year, the Fondation was actively involved in the redesign of the section of Loto-Québec's Web site focused on responsible gaming. A vast array of information has been added to the section, including a list of free resources available throughout the province. Over 158,800 visits to this section of the site were logged between April 1, 2006 and March 31, 2007.

In 2005, the Fondation was entrusted with the mandate to work with the appropriate parties to develop additional prevention programs and measures in seven geographic sectors of Québec where the ratio of video lottery terminals is higher than the provincial average. In that regard, the Fondation is sustaining an excessive gaming prevention and awareness program aimed at Québec's native communities. Under the banner of this program, representatives of the Fondation Kanatha will be visiting some 40 different communities between now and 2009, including 15 in 2007.

Financial Management and Strategic Planning

Part of the Senior Vice-Presidency of Financial Management, the Corporate Vice-Presidency of Finance and Administration provides Loto-Québec and its subsidiaries with the following services:

- Effective maintenance of books and records
- Production of financial information
- Management of accounts and financial transactions
- Financial protection of assets
- Development and monitoring of budgetary and financial controls
- Procurement of goods and services
- Supervision of activities related to the implementation of Société des salons de jeux du Québec gaming centres

In accordance with Loto-Québec's procurement policy, the Vice-Presidency is dedicated to obtaining the best quality-price ratio when making its acquisitions, while fully respecting the principles of transparency and fairness in the selection of suppliers. Within a context in which several of the Corporation's activity sectors are seeing their revenues reach a plateau, the group also works to support the operating cost cutting efforts of the organization's business units, as well as to carefully evaluate and monitor capital projects.

During the past fiscal year, Loto-Québec acquired goods and services worth a total of $432.1 million. These purchases were made from 1,190 suppliers, 84.8% of which are based in Québec.

In line with the Corporation's sustainable development policy, this coming year will see the Vice-Presidency assume responsibility for defining a list of financially reasonable evaluation criteria that can be integrated into calls for tender to assess each proposal submitted. With respect to the Public Corporation Governance Bill adopted in December 2006, the Vice-Presidency will also be actively involved in determining performance indicators to allow Loto-Québec to more effectively measure its financial and non-financial results.

Strategic Planning

The year just ended was particularly active for the Department of Corporate Analysis and Planning, which is charged with managing the implementation of the Corporation's 2007-2010 Strategic Plan and ensuing 2007-2008 Action Plans. To that end, the Department lent its support to each corporate business unit to help with their respective planning efforts, assuring the rigour of the process and standardization of the information presented. This second strategic planning exercise in the recent history of Loto-Québec is perfectly aligned with the requirements of the new Public Corporation Governance legislation.

Over the course of the coming fiscal year, the Department will focus its efforts on developing effective tools to monitor the units' triennial and action plans. Working in concert with the Corporate Vice-Presidency of Finance and Administration and the Internal Auditing Department, the group will also be refining and implementing a well defined management chart. Designed for senior management, this valuable tool will be used to measure the progress of strategic initiatives and track the advances being made towards realizing their various objectives.

As well, the Department of Corporate Analysis and Planning is working on assembling all the information required to draw up a comprehensive index of game offerings offered within the province and to compare these offerings with those of the other provinces. Finally, the group will continue to collaborate on various analysis projects during the coming year, particularly on those related to the gaming centres and Casino Mundial projects.

Real Estate Activities

Part of the Senior Vice-Presidency of Financial Management, the Corporate Vice-Presidency of Real Estate plays a dual role of management and development. On the one hand, it operates Loto-Québec's buildings and provides all subsidiaries with systematic support in the management of their properties. In addition, the group conducts feasibility studies and plans and executes new real estate projects.

Assembled primarily between 1993 and 2001, the Corporation's real estate holdings are comprised of more than 35 assets with a combined acquisition value in the order of $821 million. Occupying a total area of over 470,000 square metres, these holdings include commercial properties (casinos, hotels, parking facilities), administrative buildings (offices, warehouses) and land.

Acquisition of SITQ National's Interest in the Headquarters Building

In January 2007, Loto-Québec became the sole proprietor of the building housing its Montréal head office. Representing an investment of $57.5 million, the acquisition of the 50% share held by SITQ National allows the Corporation to better control its occupation costs and facilitates long-term planning of its administrative space requirements.

Gaming Centres

The Corporate Vice-Presidency of Real Estate is actively involved in Loto-Québec's gaming centre initiative, lending its development and management expertise to the planning and construction of the Québec City and Trois-Rivières facilities, as well as to the development phase for the other two sites planned in Mont-Tremblant and the northern fringe of Montréal respectively.

Review of Management Activities

Certified Buildings

The Real Estate Vice-Presidency is firmly committed to the application of Loto-Québec's sustainable development policy. As such, the group plays a decisive role in the search for effective ways to make the Corporation's buildings more environmentally friendly. In order to fulfill this mandate, the group will make every effort over the coming years to adopt new ways of operating.

All Loto-Québec buildings, including its casinos, have obtained *Go Green* certification from the Québec section of the Building Owners and Managers Association. Moreover, five buildings, including the Montréal head office and Québec City regional office, have obtained *Go Green Plus* certification attesting to their superior environmental performance.

Similarly, the Vice-Presidency has committed to ensuring that all new constructions, such as the gaming centres, be designed and executed so as to be eligible for the Sustainable Development Council of Canada's Leadership in Energy and Environmental Design certification. The specific objective for the Québec City and Trois-Rivières gaming centres is to obtain the "Silver" level of this particular certification.

Maintaining Assets and Managing Spaces

One of the Real Estate group's key areas of responsibility is to assure the reliability of building systems and, thus, the wellbeing of their occupants and security of the Corporation's business activities. As part of this mandate, repair work continued at the Casino de Montréal during the past fiscal year to resolve the most pressing age-related problems and preserve the value of the asset. The group also carried out important mechanical and electrical work to assure the security of computer centre operations. This work is slated for completion during the current fiscal year.

Leasehold Revenues

A subsidiary of Loto-Québec, Lotim is now the sole owner of the Corporation's Montréal head office building. The year just ended saw no change in the building's rental status, with the occupancy rate remaining at close to 100%. The head office property generated net income of $5.7 million during fiscal 2006-2007, up slightly from the previous year due primarily to an increase in rental income and a reduction in the general costs related to investment amortization. By acquiring the building in full, Loto-Québec will reap the benefits of 100% of its income potential during fiscal 2007-2008, with all revenues and expenses to be integrated into the Real Estate Vice-Presidency's budgets. At the end of December 2007, responsibility for building operations will be assumed by the group's internal operations team.

International Activities

Over the course of the past reporting period, the Vice-Presidency was an active participant in the development activities of Moliflor Loisirs in France. More specifically, the group lent its expertise to Moliflor's growth by providing the appropriate technical support to implement the annual capital program and prepare proposals for concessions.

Information Technologies

The mission of the Corporate Vice-Presidency of Information Technologies is to develop (or acquire) and operate (or outsource the operation of) gaming and management systems designed to help achieve the business objectives of Loto-Québec and its subsidiaries. The group is also responsible for providing the organization with guidance in making the appropriate choices within the vast and complex area of information technologies (IT).

Assuring System Reliability

The year just ended was brimming with projects and accomplishments for the Vice-Presidency of Information Technologies. Within the Systems Operation Department alone, more than 30 individual projects were undertaken and successfully completed, resulting in some 2,000 different modifications being made to existing environments. In the process, system reliability was virtually fully maintained, with lottery systems, for example, retaining a 99.94% rate of reliability and administrative system performance at 99.98%.

Committed to the use of processes that assure optimum performance, the Operations Department carried out a thorough evaluation of its operating procedures in accordance with the Information Technology Infrastructure Library approach, a recognized standard in the area of systems operation. This rigorous exercise served to confirm the validity and effectiveness of existing methods, while at the same time, identifying various possible means of improvement.

Terminal and Telecommunication Network Replacement

The pursuit of the Tr@fic project was a principal preoccupation within the IT sector during the course of fiscal 2006-2007. This project involves the replacement of Loto-Québec's 8,750 game terminals and the upgrading of the telecommunication network that connects all these terminals with the Corporation's central control system.

Subsequent to the release of public tenders, the French firm of Sagem DS was selected to supply the new terminals, while Bell Canada was chosen for the telecommunication network. Valued at several tens of millions of dollars, the two contracts are a source of major economic benefits for the local economy, with the new terminals to be assembled in Québec by Positron of Kirkland.

On a related front, the processing power of the Corporation's central computer system was doubled in May 2006. Thanks to this increased capacity, the two telecommunication networks will be able to operate in parallel during the transition phase. In the meantime, there will be a greater margin to manoeuvre during operations carried out in batch mode.

New Casino Game Management System

The implementation of a new system for the management of casino games was another major initiative realized during the year just ended. Carried out by Technologies Nter on behalf of the Société des casinos du Québec, the new system designed by Konami is an advanced solution that enables casinos to manage their slot machines more flexibly and effectively. The Keno game system was also replaced in order to offer players a more diverse gaming experience.

Other Accomplishments

Among the other activities and accomplishments realized during the past year by the various teams within the IT sector are the following:

- Start of production of a financial management system for passive and instant lotteries and pursuit of development of a financial management system for direct access lotteries
- Launch of the *Vie de millionnaire* and *Jour de paye* lotteries
- Installation of an additional 250 digital displays at points of sale
- Complete redesign of the corporate Web site
- Expansion of marketing database data marts
- Optimization of the Important Transaction system to meet the new requirements of the Financial Transactions and Reports Analysis Centre of Canada
- Preliminary analysis of the appropriate directions for the new *e-lotom@tique*
- Start of production of a new version of the payroll management system and orientation studies focused on the future of human resources and payroll management systems
- Implementation of a solution for the management of training activities

Security

The mission of the Corporate Vice-Presidency of Security is to collaborate with all of the organization's sectors in order to protect Loto-Québec's clientele, assets and image. The group fulfills this mission through effective risk management, by showing respect for all individuals, and by ensuring total transparency within a legal framework.

New Standards

After having consolidated its standards, the group conducted a thorough review of the security sector in order to be able to better meet the Corporation's business requirements. As part of this process, a major effort is underway to sensitize all parties concerned to the need for greater control over illicit gaming activities in Québec. In addition, the group is committed to extending its security awareness program throughout all levels of the organization.

Review of Management Activities

In order to achieve its objectives, the Vice-Presidency intends to optimize security management processes to ensure that they are fully adequate, well documented, properly understood by all individuals concerned, correctly applied and continuously monitored. In so doing, the group is advocating actions that promote healthy risk management, that reinforce relations between administrative and operational sectors, and that are fuelled by a dedication to customer service.

Investigations and Operational Security

Under the theme, *Optimal Link*, and working in close collaboration with the sectors concerned, the Investigations and Security Department has created an optimization committee and added the appropriate resources to improve exchanges with the Financial Transactions and Reports Analysis Centre of Canada.

In March 2007, the Vice-Presidency played host to the members of the Financial Action Task Force (FATF), who came to consult Loto-Québec as the Canadian reference within the gaming industry security sector. FATF is an intergovernmental organization responsible for developing and promoting national and international policies designed to combat money laundering.

Among the Security group's other initiatives during fiscal 2006-2007 are the following:

- Completion of an audit evaluating the control of access to Loto-Québec's head office, as well as building security and surveillance activities
- Initiation of a review of employee security clearance practices
- Collaboration in the phantom shopper project aimed at deterring retailers from selling lottery products to minors
- Issuance of new directives and launch of an awareness campaign about the behaviours expected of employees with respect to computer security

Security of Information Technologies

The Department of Information Technology Security is responsible for assuring the security of all the Corporation's information systems. The group is closely involved in all projects pertaining to these systems, providing its expertise during the crucial design, development and implementation phases. This past year, particular effort was devoted to the replacement of lottery sales terminals and the implementation of the new telecommunication network, new game management systems at the casinos, the introduction of a Canada-wide lottery, and the integration of gaming centres.

Human Resources

The Corporate Vice-Presidency of Human Resources participates actively in developing the strategic directions of the Corporation and its subsidiaries, as well as in helping to achieve their business objectives. During the past fiscal year, the group initiated numerous projects to ensure that all activity sectors can realize their respective business strategies with a properly trained and qualified workforce.

Recruitment and Staffing

With the support of the Vice-Presidency's resources, the Société des salons de jeux du Québec (SSJQ) began recruiting its personnel in preparation for the opening of the Trois-Rivières and Québec City gaming centres. In the process, the SSJQ opened up a range of job opportunities to individuals seeking to meet interesting new professional challenges.

During fiscal 2006-2007, the Job Offers page of Loto-Québec's Web site received over 422,000 visits, and the Corporation and its subsidiaries collected 84,000 applications for jobs posted externally, representing an increase of 27% over the previous reporting period. In addition, the internal recruitment service underwent certain improvements, with computerization of the process now allowing for the posting of openings over the Corporation's Intranet.

Labour Relations

From a labour relations perspective, the Corporation renewed the collective agreements with employees who are members of the Syndicat des travailleurs et travailleuses de Loto-Québec and the Loto-Québec section of the Syndicat des professionnelles et professionnels du gouvernement du Québec. These two agreements are to remain in effect until January 31, 2009.

A number of meetings were also held concerning the renewal of other collective agreements with Société des casinos du Québec (SCQ) employee groups, with the customer focus and profitability positioning of the establishments being among the employer's major preoccupations. Over the course of next year, negotiations will get underway for the renewal of 13 collective agreements within the Casino sector.

Training and Competency Development

The first steps toward the implementation of the management recruitment planning program were also taken during the past fiscal year, the initial focus being on the SCQ and certain corporate sectors. Moreover, the productivity assessment program was modified so as to better account for competencies expected of managers and the organization's business objectives.

A significant effort was directed over the course of the year towards the development of effective training programs. In the case of the SSJQ, this training was aimed, in particular, at customer service and outsourced management. For the SCQ, "Dream Service" training complemented the "Phil the Moment of Truth" program already in place, the primary objective once again being to mobilize personnel around the customer service commitment.

Finally, in order to optimize organizational efficiency, the management of all training activities has been computerized. With the realization of this project, the Vice-Presidency has succeeded in standardizing the various training processes in place throughout the Corporation's different units, thus facilitating compliance with the administrative requirements of Bill 90.

Estimated Workforce – 2007-2008

Loto-Québec	863
Société des casinos du Québec and Resto-Casino	98
Casino de Montréal*	3,458
Casino de Charlevoix*	395
Casino du Lac-Leamy*	1,408
Hilton Lac-Leamy Hotel	319
Société des loteries vidéo du Québec	40
Société des bingos du Québec	26
Société des salons de jeux du Québec	59
Ingenio	43
Technologies Nter	155
Total	6,864

* Including restaurant and bar personnel

Communications and Public Affairs

The mission of the Senior Corporate Vice-Presidency of Communications and Public Affairs is to maintain close ties between Loto-Québec and its various publics. Responsible for promoting the image and development of the Corporation, the group is also actively involved in the design and implementation of a wide range of communication activities and programs aimed at helping the organization achieve its business objectives, as well as at fostering public awareness and appreciation of Loto-Québec's economic, social and environmental contributions.

Moreover, the Senior Vice-Presidency plays an important role as a change agent and facilitator among the Corporation's different subsidiaries and administrative units. The group's spheres of responsibility also include La Collection Loto-Québec and the Espace Création gallery, as well as overseeing the organization's commitments to sustainable development.

Among the specific initiatives realized during the past fiscal year was the creation of a new Community Relations Department. A pilot project launched to establish a dialogue with the principal socio-economic players in the Mauricie and Centre-du-Québec regions, this new unit is charged with identifying and documenting the primary concerns of residents in these regions vis-à-vis Loto-Québec in order to facilitate the formulation of business decisions.

Review of Management Activities

An Agency Model of Operation

Working within the framework of a model typically used by communications agencies, the Senior Vice-Presidency's personnel are able to satisfy the majority of the needs of Loto-Québec and its subsidiaries, offering broad expertise in the areas of internal and digital communications, graphic design, audiovisual production and publication. The establishment of the gaming centres, the promotion of secure computing practices, and the development of an advertising production code of ethics were but some of the files handled by the team during the year just ended. For its part, the Media Relations Department organized seven press conferences and distributed some 500 press releases over the course of the year, in addition to responding to the many requests for information received from the media on a daily basis.

Digital Communications

The Senior Vice-Presidency was particularly active in the area of digital communications this past year, with its principal accomplishments including the following:

- Creation, production and management of the content appearing on digital display screens at retailer locations
- Complete redesign of the Corporation's Web site, one of the province's most visited Internet addresses
- Creation of new sites dedicated to the *Vie de millionnaire* and *Jour de paye* lotteries, as well as the *letour2echance.com* and *clubelite.com* sites on behalf of the Société des bingos du Québec
- Implementation of the Atlas corporate Intranet within all Loto-Québec business units

Sponsorship Program

During fiscal 2006-2007, the Sponsorships Department devoted some $14.6 million to the sponsorship of more than 100 events under the banner of *Les Rendez-vous Loto-Québec*. Selected on the basis of their ability to attract tourists and generate economic spin-offs, these *rendez-vous* consist of festivals, cultural events and public gatherings that are accessible to all and include a major component of free activities. In addition to providing a direct financial contribution, Loto-Québec offers organizers valuable promotional and advertising support to help showcase their events and extend their reach.

Requests for event sponsorships are now processed online via a quick and easy to use automated system. A concerted effort was devoted during the past year to supporting events that reflect the cultural diversity of Québec and those that promote awareness and an appreciation of the richness of the world's different societies.

La Collection Loto-Québec and Espace Création

Loto-Québec pursued its policy of supporting the province's visual arts milieu with the acquisition of some 200 new works during the year just ended, representing a total investment of $419,000. In existence since 1980, La Collection Loto-Québec now encompasses 3,700 distinctive works created by close to 950 local artists, making it one of the largest and most important corporate art collections in Canada.

The Corporation also shows its support for Québec artists by organizing original exhibitions at the Espace Création gallery located on the ground floor of its Montréal head office building. The gallery played host to four exhibitions during fiscal 2006-2007, including one devoted to some of La Collection Loto-Québec's acquisitions, and another highly popular exhibit presenting a retrospective of the works of Frédéric Back.

Sustainable Development and Social Responsibility

Acting

Responsibly and

Developing

Sustainably

Since 2005, Loto-Québec has been actively pursuing a sustainable development initiative involving a combination of economic, social and environmental dimensions. This commitment, which is shared by all corporate units and subsidiaries, is fuelled by a progressive approach to responsible management and a respect for business objectives and operational realities. Falling under the responsibility of the Senior Vice-Presidency of Corporate Communications and Public Affairs, the initiative has received the support of Loto-Québec's Board of Directors since the beginning and is an integral part of the Corporation's 2007-2010 Strategic Plan. As such, Loto-Québec is one of the forerunners in this area among the province's public administration.

To date, the Corporation has taken several major steps towards achieving its overall sustainable development objectives. First, a social responsibility and sustainable development committee was formed comprised of 20 or so individuals from different corporate and business units. In addition, there are some 15 other internal committees that are following the initiatives of the *Go Green* environmental program and involved in proposing specific actions that will contribute to sustainable development.

The Sustainable Development Act adopted in April 2006 includes 16 principles. As required by the legislation, Loto-Québec has implemented appropriate account rendering mechanisms by:

- appointing a person to assume responsibility for sustainable development in order to coordinate the effort and assure its effective implementation
- publishing the progress being made in a specific section of its Annual Report

Loto-Québec's sustainable development policy adopted by its Board of Directors in November 2006 is comprised of 11 commitments and a number of clear orientations. This policy was announced to all corporate employees and made public in the spring of 2007.

Like all Ministries and public administration organizations, Loto-Québec will comply with the Government's Sustainable Development Strategy, which should be announced by December 31, 2007 at the latest. The Corporation will then develop an action plan in line with this strategy.

During fiscal 2006-2007, Loto-Québec consolidated the numerous practices already in place and integrated various new initiatives in order to tangibly meet the expectations of the different parties concerned. Following are a few examples:

Responsible Procurement

- Optimal use of paper containing recycled fibres for the printing of corporate publications and documents
- Development project to identify specific criteria for the responsible procurement of goods and services in collaboration with a group of graduate students in the University of Sherbrooke's Environment program
- Replacement of certain computer equipment at each establishment with multifunctional units in order to reduce energy consumption

Certifications and Standards

- BOMA (Building Owners and Managers Association) *Go Green* certification awarded to all 10 Loto-Québec buildings
- *Go Green Plus* certification awarded to five Loto-Québec buildings, including the Montréal head office and Québec City regional office
- Adoption of the American LEED (Leadership in Energy and Environmental Design) ecological building standard for the construction and layout of all new corporate buildings

Loto-Québec's Multifunctional Centre in Montreal is one of five of the Corporation's buildings to have earned Go Green certification.

A residual material management program has been implemented in all Loto-Québec buildings.

Multi-Material Recuperation Program at All Establishments

- Institution of a collection system for paper and cardboard, plastics, glass, metal, batteries, fluorescent bulbs, renovation and construction materials, computer equipment, small electric devices and furniture

Partnerships

- Partnership with the City of Montréal as part of the second phase of its 2007-2009 Sustainable Development Strategic Plan
- Partnership with the Réseau québécois des femmes en environnement to develop an eco-responsible event management certification project
- Association with the Société québécoise des professionnels en relations publiques' Paul-Dumont-Frenette competition that calls for Communication students at Québec universities to prepare a communications plan in support of sustainable development
- Partnership with the ÉCHO-Logique Consortium, a social economy initiative focused on the management of recyclable materials

Transparency Within the Sustainable Development Initiative

- Addition of a new section pertaining to sustainable development on the *lotoquebec.com* corporate Intranet site
- Creation of the *Empreinte* internal electronic newsletter
- Postings about sustainable development in the various establishments
- Organization of workshops and conferences for employees focused on sustainable development and environmental management
- Creation of a guide for the eco-responsible organization of events

A Signature for Sustainable Development

A signature specific to Loto-Québec has been created by a group of employees in order to identify all initiatives related to sustainable development. The signature consists of a brief mobilizing message and a graphic symbol evoking motion and the three dimensions of sustainable development. The dark orange symbolizes the social element, warmth and multiculturalism; the yellow represents the economic element, dynamism and vigilance; the green connotes the environmental component, nature and growth.

Action durable
Geste responsable

To meet its sustainable development objectives, Loto-Québec is committed to the following:

Loto-Québec's mission is to assure the systematic and effective operation of games of chance in the province. Loto-Québec recognizes and is dedicated to fulfilling its role as a responsible corporate citizen with respect to its employees, customers, partners and the provincial community at large.

As such, and in accordance with the strategy established by the Québec Government, the Corporation has developed a comprehensive sustainable development policy. Under the terms of this policy, Loto-Québec conducts its activities so as to promote sustainable development and meet the needs of present and future generations while contributing to the sustainability of the organization itself. This contribution encompasses economic, social and environmental aspects alike.

To meet its sustainable development objectives, Loto-Québec is committed to the following:

1. Optimizing economic benefits for all of Québec society while taking sustainable development considerations into account by:
   - returning the fruits of its activities in their entirety to the Québec population
   - maintaining its economic contribution without increasing overall game offerings
   - innovating within its commercial activity sectors through research and development
   - contributing to the development of Québec's tourism industry
   - applying its expertise to national and international projects that promote the Corporation's development and that of Québec society as a whole

2. Favouring the acquisition of goods and services from suppliers, entrepreneurs, organizations and subcontractors that adopt responsible sustainable development practices by:
   - integrating sustainable development criteria into the selection process for calls for tender and the procurement of goods and services

3. Promoting responsible gaming behaviour among its clientele and employees and those of its subsidiaries by:
   - implementing preventive measures throughout its gaming operations in order to minimize the social costs associated with games of chance
   - promoting employee and retailer training
   - investing in prevention, sensitization and research related to excessive gaming

4. Developing and maintaining harmonious community relations by:
   - becoming involved in communities in which the Corporation operates and plans on developing new projects to maximize local socio-economic spin-offs

5. Supporting organizations and events that offer significant spin-offs within their respective regions by:
   - contributing to the financing of non-profit organizations through commercial activities
   - supporting community and humanitarian action
   - supporting organizations through corporate sponsorships and subsidies
   - sponsoring public events based on their potential for generating social and economic spin-offs in the community and attracting tourists

6. Acting as a responsible employer by:
   - offering its employees a safe and healthy working environment
   - demonstrating fairness in hiring and working conditions
   - offering training and development opportunities

7. Contributing to the promotion and preservation of Québec's cultural heritage by:
   - supporting the province's arts and culture milieu

8. Adhering to preventive management practices aimed at reducing the impact of its activities and infrastructures on the environment by:
   - using natural and energy resources responsibly
   - reducing greenhouse gas emissions
   - promoting the ecological management of current and future infrastructures

9. Promoting the awareness and commitment of its various internal publics to sustainable development by:
   - informing and sensitizing the publics to sustainable development initiatives
   - encouraging employees to participate in sustainable development projects

10. Assuring the transparency of its sustainable development initiatives by:
    - publishing its sustainable development objectives and accomplishments in its Annual Report and other communications materials
    - ensuring its various external publics access to information pertaining to its sustainable development initiatives

11. Assuring continuous improvement through the close monitoring of its sustainable development actions by:
    - measuring the success of its initiatives using pre-established indicators
    - taking into account the comments and recommendations of all parties concerned and of the sustainable development administrator

- contributing to the financing of non-profit organizations through commercial activities
- supporting community and humanitarian action
- supporting organizations through corporate sponsorships and subsidies
- sponsoring public events based on their potential for generating social and economic spin-offs in the community and attracting tourists

- offering its employees a safe and healthy working environment
- demonstrating fairness in hiring and working conditions
- offering training and development opportunities

- returning the fruits of its activities in their entirety to the Québec population
- maintaining its economic contribution without increasing overall game offerings
- innovating within its commercial activity sectors through research and development
- contributing to the development of Québec's tourism industry
- applying its expertise to national and international projects that promote the Corporation's development and that of Québec society as a whole

- supporting the province's arts and culture milieu

- using natural and energy resources responsibly
- reducing greenhouse gas emissions
- promoting the ecological management of current and future infrastructures

- integrating sustainable development criteria into the selection process for calls for tender and the procurement of goods and services

- informing and sensitizing the publics to sustainable development initiatives
- encouraging employees to participate in sustainable development projects

- implementing preventive measures throughout its gaming operations in order to minimize the social costs associated with games of chance
- promoting employee and retailer training
- investing in prevention, sensitization and research related to excessive gaming

- publishing its sustainable development objectives and accomplishments in its Annual Report and other communications materials
- ensuring its various external publics access to information pertaining to its sustainable development initiatives

- becoming involved in communities in which the Corporation operates and plans on developing new projects to maximize local socio-economic spin-offs

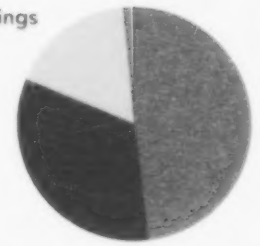
- measuring the success of its initiatives using pre-established indicators
- taking into account the comments and recommendations of all parties concerned and of the sustainable development administrator

Financial Overview

For the first time in its history, Loto-Québec showed a decline in its total earnings during the year just ended as compared to the previous reporting period. At the end of fiscal 2006-2007, the Corporation's **consolidated revenues** equalled close to $3.8 billion. This represents a decrease of $217.2 million, or 5.4%, of which close to $201 million is attributable to the Video Lottery sector. The Corporation's **consolidated gross margin** of $2.364 billion reflected a drop of $168.4 million, or 6.6%, from the previous year's figures, while **operating expenses** at $765.2 million were down by $9.4 million, or 1.2%, as compared to fiscal 2005-2006. For its part, **consolidated net earnings** at $145.9 million also showed a weakening of 9% vis-à-vis the previous reporting period.

Consolidated Revenues

Consolidated Net Earnings



Revenues and Gross Margin by Sector

With total sales of $1.842 billion, the **Lottery** sector posted a decline of $18.2 million, or 1%, over the previous fiscal year. This decline is attributable to the negative results of both instant lotteries (down $63.8 million, or 11.2%) and passive lotteries (down $13.2 million, or 10%), which proved to be more significant than increased revenues earned by direct access lotteries (up $55.9 million, or 5%). The sector's gross margin totalled $720.9 million, translating into a drop of $14.7 million, or 2%, vis-à-vis fiscal 2005-2006. In all, the sector paid out $964.9 million in prizes to winners and $124 million in commissions to retailers.

The **Casino** sector posted revenues of $758.2 million during the year just ended, which is equivalent to the earnings recorded in fiscal 2005-2006. These results were achieved without any increase in game offerings and within a context of diminished American tourist traffic and fierce competition originating from Ontario. The negative circumstances had the greatest impact on the Casino du Lac-Leamy, whose revenues at $201.9 million were down by $8.2 million, or 3.9%, as compared to the previous year. On the other hand, the Casino de Montréal's earnings showed an increase of $5.6 million, or 1.1%, while, at $49.9 million, the Casino de Charlevoix's income was also up by $2.3 million, or 4.9%, over fiscal 2005-2006. During that year, the Fairmont Le Manoir Richelieu Hotel was plagued by a labour conflict that lasted for close to seven months. Consequently, traffic in Charlevoix has increased during the course of the past year. Finally, combined promotional allowances remitted to players by the three casinos totalled $21.8 million, down by $1.3 million, or 5.8%, as compared to fiscal 2005-2006.

For its part, the **Restaurant and Lodging** sector recorded revenues of $104 million during the year just ended, up by $3.1 million, or 3.1%, over the previous year, including $1.9 million derived from transactions with the Casino sector. Restaurant revenues rose by $1.6 million, while the Hilton Lac-Leamy Hotel's earnings grew by $1.5 million, due primarily to its occupancy rate increasing from 72.7% during 2005-2006 to 75.5% in 2006-2007.

Totalling $1.098 billion, the **Video Lottery** sector's revenues declined by $200.9 million, or 15.5%, as compared to fiscal 2005-2006. This drop in earnings is the result of two principal factors - first and foremost, the impact of the new legal stipulations prohibiting smoking in bars that came into effect on May 31, 2006, and secondly, the reduction in the number of video lottery terminals (VLTs) and VLT sites due to the reconfiguration of the network in accordance with Loto-Québec's 2004-2007 Development Plan. As at March 31, 2007, there were 12,779 VLTs in operation at a total of 2,905 sites, representing 737 fewer units and 217 fewer sites than were in place as at March 31, 2006. Video lottery operators received $251.8 million in commissions and other financial compensations during the past fiscal year, compared to $290.9 million in fiscal 2005-2006.

In the **Bingo** sector, the implementation of effective sales and promotional strategies made it possible to counteract the effects of the tobacco legislation on bingo hall traffic. More specifically, this sector posted revenues of $39.4 million, down slightly by $487,000, or 1.2%, from the previous year in the midst of a declining market context prevalent throughout all of Canada. During the course of the year, the Société des bingos du Québec was able to award $18 million in prizes to players and $2.4 million in commissions to hall operators.

Finally, the **Multimedia** sector recorded revenues of close to $1.1 million during the year just ended, a decrease of $292,000, or 21.6%, over the previous reporting period. This decline can be attributed to the slowdown in orders for multimedia products resulting from the cautious attitude adopted by lottery corporations. This prudence is due essentially to the legal proceedings launched by Ingenio in defence of its intellectual property rights, as well as the legislative questions and legal confusion in the United States surrounding Internet sales and online gaming. Consequently, no sales were generated outside Canada during this past year, as opposed to fiscal 2005-2006, when foreign revenues amounted to $666,000. In Canada, the sector's sales were also down by $180,000, although the awarding of commercial licenses did generate revenues of $521,000.

International

The **International** sector posted revenues of $1.7 million derived from a service contract with Moliflor Loisirs Développement. Casino Mundial's investment in this company generated non-cashed interest income of $7.1 million for Loto-Québec, a gain of $8.1 million in unrealized foreign exchange, and additional revenues of $1 million from its share of Moliflor profits. Thus, the International sector recorded total net earnings of $16.9 million during the past fiscal year.

Operating Expenses

At $765.2 million, Loto-Québec's **operating expenses** were down by $9.4 million, or 1.2%, compared to the previous year. This represents a ratio of 20.1% of the Corporation's total earnings, in contrast with a quotient of 19.3% during 2005-2006. The decline can be attributed to an increase of $10.6 million, or 92.4%, in net interest resulting from the significant drop in the Video Lottery sector's net earnings, combined with the cost of financing the Corporation's investment in Moliflor Loisirs Développement. However, this investment generated non-cashed interest income for the International sector of $7.1 million, plus a gain of close to $8.1 million in unrealized foreign exchange. Finally, total amortization costs were down by $2.4 million, or 2.5% during the year just ended.

Other Items

Other items totalled $130.9 million, down $13.1 million, or 9.1%, from the previous reporting period. A number of factors account for this variation, including an $11.6 million, or 10.4%, decrease in consumption taxes (GST and QST) due primarily to the significant drop in commissions paid to retailers in the Video Lottery sector. Moreover, the 35% interest in the results of Moliflor Loisirs Développement generated a $1 million share for the International sector.

Contributions to Governments

Loto-Québec's contribution in the form of dividends to the Ministère des Finances amounted to $1.391 billion during fiscal 2006-2007, or $146 million less than during the previous year. This variation reflects the decrease in net income posted by the Video Lottery sector. An additional $76.8 million was paid into the Québec Government's various designated funds, along with a sum of $85.5 million to the Ministère du Revenu in tax on capital and Québec Sales Tax. As such, total contributions to the Québec Government equalled close to $1.6 billion. On the federal level, the Corporation contributed $14.9 million to the Government of Canada as compensation for its withdrawal from the lottery sector, as well as $64.2 million in the form of Goods and Services Tax.

Management's Report

The consolidated financial statements of Loto-Québec have been prepared by management, who is responsible for their preparation and presentation, and includes important estimates and assumptions. This responsibility also includes the election of the proper accounting policies and those which respect Canadian generally accepted accounting principles. Financial information provided elsewhere in the Annual Report on Activities is consistent with that shown in the financial statements.

To meet its obligations, management maintains internal control systems that are designed to provide reasonable assurance that the assets are safeguarded and the transactions are properly recorded and approved, and that they enable management to produce reliable consolidated financial statements. Corporate management of the internal audit performs periodic audits in order to ensure the adequacy and maintenance of the internal controls applied consistently by Loto-Québec.

Loto-Québec recognizes that it is responsible for managing its business in compliance with the laws and regulations that govern it.

The Board of Directors, assisted by its Audit Committee, consisting solely of outside directors, monitors management's responsibilities regarding the financial information and approves the consolidated financial statements. The Audit Committee meets with management and the Auditor General of Québec, reviews the Corporation's consolidated financial statements and recommends their approval to the Board of Directors.

The Auditor General of Québec has audited the consolidated financial statements of Loto-Québec, in compliance with Canadian generally accepted auditing standards, and his auditor's report states the nature and scope of this audit and his statement of opinion. The Auditor General has free access to the Audit Committee to discuss audit-related issues.

Alain Cousineau
Chairman, President and Chief Executive Officer

Gille Dufour
Senior Vice-President Financial Affairs

Montréal, May 24, 2007

Auditor's Report

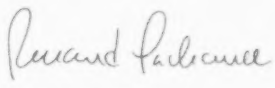
To the Minister of Finance

I have audited the consolidated balance sheet of Loto-Québec as at March 31, 2007 and the consolidated statements of earnings, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these consolidated financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2007, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., chapter V-5.01), I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

The Auditor General of Québec,



Renaud Lachance, CA

Québec, May 24, 2007

Consolidated Statement of Earnings

Year ended March 31, 2007 *(in thousands of dollars)*	2007	2006
Revenues	3,798,832	4,016,030
Cost of Sales (note 3)	1,434,688	1,483,521
Gross Margin	2,364,144	2,532,509
Operating Expenses		
Operating costs	657,926	668,484
Depreciation and amortization of property, plant and equipment	80,742	84,754
Amortization of intangible assets	11,557	9,920
Interest – net (note 4)	14,976	11,473
	765,201	774,631
Earnings Before the Undernoted	1,598,943	1,757,878
Special payments (note 5)	32,008	32,459
Goods and Services Tax	44,073	51,964
Québec Sales Tax	55,814	59,512
Share in a company subject to significant influence Moliflor Loisirs Développement	(1,017)	–
	130,878	143,935
Net Earnings	1,468,065	1,613,943

Segmented Information (note 23)

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Retained Earnings

Year ended March 31, 2007 *(in thousands of dollars)*	2007	2006
Balance, Beginning of Year	134,776	134,852
Net earnings	1,468,065	1,613,943
	1,602,841	1,748,795
Dividends	(1,391,000)	(1,537,000)
Fonds d'aide à l'action communautaire autonome (note 6)	(13,126)	(13,324)
Fonds d'aide à l'action humanitaire internationale (note 6)	(2,625)	(2,665)
Contributions to the Government of Québec (note 7)	(61,008)	(61,030)
	(1,467,759)	(1,614,019)
Balance, End of Year	135,082	134,776

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Balance Sheet

As at March 31, 2007 *(in thousands of dollars)*	2007	2006
ASSETS		
Current assets		
Cash on hand – casinos	52,683	48,764
Cash	19,783	–
Accounts receivable (note 8)	81,633	72,470
Inventories (note 9)	10,729	12,751
Prepaid expenses	26,876	26,320
Land held for sale	–	2,077
	191,704	162,382
Investments (note 10)	145,327	128,868
Property, plant and equipment (note 11)	669,359	644,012
Intangible assets (note 12)	70,571	69,858
Deferred charges	654	–
	1,077,615	1,005,120
LIABILITIES		
Current liabilities		
Bank overdraft	–	15,563
Bank loans (note 13)	617,815	586,578
Prizes to winners	58,307	70,294
Accounts payable and accrued charges (note 14)	234,661	166,846
Provisions related to prizes (note 15)	14,818	11,759
Deferred revenues	16,762	19,134
	942,363	870,174
SHAREHOLDER'S EQUITY		
Share capital authorized, issued and paid:		
1,700 shares of a par value of $100 each	170	170
Retained earnings	135,082	134,776
	135,252	134,946
	1,077,615	1,005,120

Commitments (note 16)

The accompanying notes are an integral part of the consolidated financial statements.

Approved by the board of directors

Alain Cousineau
Chairman of the Board

Robert Crevier
Board Member

Consolidated Statement of Cash Flows

Year ended March 31, 2007 *(in thousands of dollars)*	2007	2006
OPERATING ACTIVITIES		
Net earnings	1,468,065	1,613,943
Items not affecting cash:		
Depreciation and amortization of property, plant and equipment and intangible assets	92,299	94,674
Loss on disposal of property, plant and equipment and intangible assets	6,733	–
Net contribution to Manoir Richelieu, Limited Partnership	7,524	7,951
Share in company subject to significant influence, Moliflor Loisirs Développement	(1,017)	–
Interest revenue on long-term investment, Moliflor Loisirs Développement	(7,104)	–
Unrealized exchange gain, Moliflor Loisirs Développement	(8,066)	–
Changes in non-cash operating working capital items (note 18)	(14,062)	(11,026)
Cash flows from operating activities	1,544,372	1,705,542
FINANCING ACTIVITIES		
Dividends paid	(1,331,000)	(1,613,000)
Bank loans	31,237	87,213
Contributions to the Government of Québec	(61,008)	(61,030)
Fonds d'aide à l'action communautaire autonome	(13,126)	(13,324)
Fonds d'aide à l'action humanitaire internationale	(2,625)	(2,665)
Cash flows used in financing activities	(1,376,522)	(1,602,806)
INVESTING ACTIVITIES		
Acquisitions of property, plant and equipment (note 18)	(114,811)	(42,855)
Acquisitions of intangible assets (note 18)	(11,555)	(9,999)
Acquisitions of deferred charges	(654)	–
Proceeds from disposal of property, plant and equipment and intangible assets	2,341	–
Acquisition of investments	(3,906)	(90,491)
Cash flows used in investing activities	(128,585)	(143,345)
NET CHANGES IN CASH AND CASH EQUIVALENTS	39,265	(40,609)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	33,201	73,810
CASH AND CASH EQUIVALENTS, END OF YEAR (note 18)	72,466	33,201

The accompanying notes are an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

March 31, 2007

1. Incorporation and Activities

The Société des loteries du Québec (the Corporation), designated under the name Loto-Québec, is a joint-stock company whose shares are part of the public domain and are attributed to Finance Québec. Under *An Act respecting the Société des loteries du Québec* (R.S.Q., chapter S-13.1), the functions of the Corporation are to conduct and administer lottery schemes and to operate businesses which are incidental to the operation of a State casino. The Corporation may also offer, for consideration, consulting and implementation services in matters within its competence. Under the *Income Tax Act*, (R.S.Q. (1985), Ch. 1 (5th supplement)) and the *Taxation Act* (R.S.Q., Ch. I-3), the Corporation is exempt from income taxes.

2. Accounting Policies

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from management's best estimates.

Consolidation

The consolidated financial statements include the accounts of the Corporation and those of its wholly owned subsidiaries as follows:

- Lotim inc.[1]
- La Société des casinos du Québec inc.
- Casiloc inc.
- La Société des loteries vidéo du Québec inc.
- Resto-Casino inc.
- Ingenio, filiale de Loto-Québec inc.
- La Société des bingos du Québec inc.
- World Gaming Consultants, inc.
- 9059-3849 Québec inc.
- Casino Mundial inc.
- Casino Capital 2006 inc.
- Technologies Nter, société en commandite
- Technologies Nter inc.

The investments in Manoir Richelieu, Limited Partnership, 9064-1812 Québec Inc., General Partner and Moliflor Loisirs Développement are recorded at the equity method.

Revenues

Lotteries

Revenues from the sale of lottery tickets and bingo cards are recorded on the date of the draw, with the exception of instant lottery ticket sales, which are recorded at the time of sale.

Lottery tickets sold as at March 31 for draws subsequent to that date, with the exception of instant lotteries, are recorded as deferred revenues. Retailers' commissions as a result of these sales are carried to prepaid expenses.

[1] Based on the audited financial statements as at December 31, 2006 and adjusted with the unaudited interim results as at March 31, 2007.

Accounting Policies (cont'd)

Casinos and video lotteries
Revenues from the operations of these business segments correspond to the difference between the lottery pools and the prizes awarded.

Restaurants and lodging
Revenues are recognized when services are rendered to customers, when the selling price has been fixed or determinable and collection is reasonably assured.

Multimedia
Revenues consist primarily of royalties. These royalties are recognized as they are earned in accordance with the contractual agreements specific to each of the agreements signed with the various business partners.

Other revenues are recognized when the significant risks and rewards of ownership have been transferred to the buyer or when the services have been rendered to customers. The selling price must be fixed or is determinable and collection reasonably assured.

International
These revenues stem from the provision of services related to the operations of Moliflor Loisirs Développement, services that draw on the Corporation's experience and know-how in casino-related areas as well as in the hotel, restaurant, and entertainment business.

The provision of services covers the salary of one director assigned to the external growth of Moliflor Loisirs Développement, including travel, lodging and living expenses.

A second provision of services involves the fees equal to the number of hours devoted by the Corporation's other employees multiplied by the hourly rate agreed to by the parties as well as travel and lodging expenses.

Cost of sales

Lotteries and bingo
Prizes awarded from ticket sales related to bingo products are determined using a theoretical rate applied to sales.

In addition to lottery prizes payable in cash or merchandise, the Corporation also awards free tickets. The value of these prizes is equal to the selling price and is included in revenue sales and prizes awarded as expenses.

Casinos
Promotional discounts correspond to the cash amounts paid to casino players.

Notes to the Consolidated Financial Statements

Accounting Policies (cont'd)

Commodity taxes
Taxes paid on products and services acquired and attributable to gaming activities are not recoverable by the Corporation. These taxes are recorded as part of the cost of the item to which they relate.

Furthermore, rather than collecting the Québec Sales Tax (QST) and Goods and Services Tax (GST) on revenues generated by gaming activities, the Corporation pays the taxes normally payable by the consumer and absorbs the cost. These taxes are presented separately in the consolidated statement of earnings.

Net taxes attributable to gaming activities therefore represent approximately 30% of the bulk of taxable gaming expenses, while those related to non-gaming activities are calculated in the same way as those for other entities subject to commodity taxes.

Pension plans

Defined contribution plan accounting is applied to a multiemployer governmental defined benefit plan for which Loto-Québec has insufficient information to apply defined benefit plan accounting.

Inventories

Lotteries and video lotteries
Inventories are comprised of modules for game terminals and video lottery terminals and are valued at the lower of cost or market (cost being the replacement cost). Cost is determined using the average cost method.

Restaurants
Inventories are valued at the lower of cost or market (cost being the net realizable value or replacement cost). The cost of food and beverages is established based on the average cost.

Property, plant and equipment

Property, plant and equipment, with the exception of works of art, are presented at cost and depreciated or amortized over their estimated useful lives using the straight-line method at the following annual rates:

Buildings	2% to 14.29%
Improvements to parking lots	2.5% to 14.29%
Improvements to rented parking lots	2.86% and 6.67%
Interior design	2.5% to 14.29%
Landscaping	2.67% to 14.29%
Leasehold improvements	9.68% to 20%
Office furniture	10% and 20%
Automotive equipment	30%
Equipment	10% to 33.3%

Accounting Policies (cont'd)

Unused equipment is not depreciated.

The Corporation assesses the carrying value of its property, plant and equipment on an ongoing basis. In order to determine if there is an impairment, management assesses the estimated undiscounted cash flows that will be generated by this property, plant and equipment. Any permanent impairment in value is charged to earnings in the period during which the impairment occurred.

Intangible assets

Intangible assets are comprised of software and computer development. They are presented at cost and amortized over their estimated useful lives using the straight-line method at rates varying from 10% to 33.3%. They are tested for impairment if changes in circumstances indicate that their carrying value would not be recoverable. Any excess of the carrying value over the fair value is charged to earnings for the period during which the impairment was identified.

Computer projects under development will be amortized upon completion of the development phase and once the projects have been implemented.

Deferred charges

Deferred charges consist of the preliminary costs of setting up the gaming halls; they will be amortized when operations commence.

Foreign currency translation

Monetary assets and liabilities are translated at the rate of exchange in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates, and revenue and expense items are translated at the exchange rate prevailing at the date of the transaction. All exchange gains and losses are included in earnings.

Cash and cash equivalents

The Corporation's policy consists of presenting the following as cash and cash equivalents: cash on hand at casinos, bank balances and short-term investments that are readily convertible into known amounts of cash and present an insignificant risk of change in value.

Notes to the Consolidated Financial Statements

3. Cost of sales

(in thousands of dollars)

	2007	2006
Lotteries		
Prizes awarded	964,941	966,350
Commissions to retailers	124,004	126,919
Printing of tickets	32,507	31,640
	1,121,452	1,124,909
Casinos, restaurants, lodging		
Promotional discounts	21,821	23,154
Restaurants	27,248	26,992
	49,069	50,146
Video lotteries		
Commissions to retailers	241,542	285,738
Printing of coupons	1,121	1,312
	242,663	287,050
Bingo		
Prizes awarded	18,010	18,294
Commissions to operators	2,387	2,297
Printing of cards	1,107	825
	21,504	21,416
	1,434,688	1,483,521

4. Interest – Net

(in thousands of dollars)

	2007	2006
Interest charges on bank loans	22,950	12,034
Interest revenue on term deposits	(870)	(561)
Interest revenue on long-term investment, Moliflor Loisirs Développement	(7,104)	–
	14,976	11,473

5. Special Payments

(in thousands of dollars)	2007	2006
Compensation to the Government of Canada	14,946	14,819
Net contribution to Manoir Richelieu, Limited Partnership	7,524	7,951
Special commissions to NPOs	1,040	1,029
Compensation to participating NPOs	7,785	7,861
Compensation to non-participating NPOs	713	799
	32,008	32,459

Compensation to the Government of Canada

Following an agreement reached between provincial governments and the Government of Canada regarding the federal government's withdrawal from the administration of lotteries, the provinces pay the federal government an annual amount of $24M (equivalent value in 1979), i.e., $63.0M for the year ended March 31, 2007 ($61.9M in 2006).

The Government of Québec's share is payable by the Corporation in accordance with the agreement reached between the provinces and the regional lottery corporations.

Net contribution to Manoir Richelieu, Limited Partnership

Pursuant to a guarantee agreement, and according to the distribution terms and conditions specified in the partnership agreement, the net contribution amount represents the minimum portion of cash generated by the operations of the Casino de Charlevoix payable to the partners, while taking into account the Corporation's share of the earnings generated by Manoir Richelieu.

Special commissions to non-profit organizations (NPOs)

Further to the shareholder's decision, a commission equal to the discount provided to retailers is paid to non-profit organizations that sell lottery tickets through the *Lotomatique* subscription system.

Compensation to non-profit organizations (NPOs)

Participating NPOs

La Société des bingos du Québec Inc. awards the following to charitable or religious organizations that hold bingo licences: an amount equal to 36.4% of bingo ticket sales less the value of prizes awarded to game winners or 50% of net earnings generated, without taking into account compensation to non-participating NPOs, whichever is higher.

Non-participating NPOs

La Société des bingos du Québec Inc. awards an amount equal to 5.45% of ticket sales generated by *Le Grand Tour* less the value of prizes paid to game winners to charitable or religious organizations that hold a bingo licences but do not participate in the Corporation's bingo games.

Notes to the Consolidated Financial Statements

6. Fonds d'aide à l'action communautaire autonome and Fonds d'aide à l'action humanitaire internationale

Under its act of incorporation, the Corporation makes annual contributions to the Fonds d'aide à l'action communautaire autonome and to the Fonds d'aide à l'action humanitaire internationale that are equal to 5% and 1%, respectively, of the net earnings of the previous year through the operations of its State-run casinos and management of its businesses.

7. Contributions to the Government of Québec

(in thousands of dollars)	2007	2006
Ministère de l'Agriculture, des Pêcheries et de l'Alimentation (MAPAQ)	5,500	5,500
Ministère de la Santé et des Services sociaux	52,000	52,000
Ministère de la Sécurité publique	3,508	3,530
	61,008	61,030

8. Accounts Receivable

(in thousands of dollars)	2007	2006
Wholesalers	33,780	37,271
Retailers	26,317	19,469
Miscellaneous	21,536	15,730
	81,633	72,470

9. Inventories

(in thousands of dollars)	2007	2006
Lotteries		
Modules – game terminals	1,328	2,707
Video lotteries		
Modules – video lottery terminals	3,761	3,864
Restaurants		
Food and beverages	5,640	6,180
	10,729	12,751

10. Investments

(in thousands of dollars)	2007	2006
Moliflor Loisirs Développement and its wholly owned subsidiaries		
Shares – 35% interest	5,820	4,803
Loans, 8%, principal and interest, cashable on May 31, 2016	101,246	82,169
	107,066	86,972
Manoir Richelieu, Limited Partnership and 9064-1812 Québec Inc., General Partner, interest equal to 50% of the operations of Manoir Richelieu and Casino de Charlevoix	38,261	41,896
	145,327	128,868

On April 6, 2006, the Corporation acquired a loan from a subsidiary of Moliflor Loisirs Développement for an amount of $3.9M.

11. Property, Plant and Equipment

			2007	2006
(in thousands of dollars)	Cost	Accumulated Depreciation and Amortization	Net	Net
Land	41,238	–	41,238	30,259
Buildings	340,807	99,976	240,831	202,702
Improvements to parking lots	128,953	66,809	62,144	67,962
Improvements to rented parking lots	5,271	3,048	2,223	2,499
Interior design	185,679	102,324	83,355	87,867
Landscaping	32,056	22,132	9,924	9,368
Leasehold improvements	37,321	28,511	8,810	10,008
Office furniture	30,283	21,618	8,665	9,568
Automotive equipment	1,044	870	174	285
Equipment	562,053	371,903	190,150	203,888
Works of art	5,366	–	5,366	4,947
Unused property, plant and equipment	16,479	–	16,479	14,659
	1,386,550	717,191	669,359	644,012

Unused property, plant and equipment consists of unused equipment in the amount of $6.6M ($13.4M in 2006), buildings undergoing renovations in the amount of $1.9M ($1.3M in 2006) as well as costs to implement gaming halls currently underway in the amount of $8.0M.

Property, plant and equipment retired at a cost of $13.2M ($5.5M in 2006), amortized in full as at March 31, 2007, are included in equipment.

Notes to the Consolidated Financial Statements

12. Intangible Assets

(in thousands of dollars)	Cost	Accumulated Amortization	2007 Net	2006 Net
Software and computer development	100,288	40,553	59,735	50,424
Computer projects under development	10,836	–	10,836	19,434
	111,124	40,553	70,571	69,858

13. Bank Loans

Bank loans on demand are authorized by the Government of Québec up to a maximum amount of $700.0M and bear interest at the market rate, which is 4.32% to 4.39% (3.74% to 4.22% in 2006).

14. Accounts Payable and Accrued Charges

(in thousands of dollars)	2007	2006
Trade accounts payable and accrued charges	142,515	138,036
Dividends	66,000	6,000
Manoir Richelieu, Limited Partnership	15,756	11,866
Québec Sales Tax	5,960	5,893
Goods and Services Tax	4,430	5,051
	234,661	166,846

15. Provisions Related to Prizes

(in thousands of dollars)	2007	2006
Provision for unclaimed prizes	14,305	11,069
Provision for differences in prize structures	513	690
	14,818	11,759

The provision for unclaimed prizes is comprised of unclaimed prizes of all the Corporation's products, excluding Canada-wide games. This amount is used as payments for bonuses and prizes to retailers.

The provision for differences in prize structures related to products in the bingo segment is comprised of differences between the theoretical amounts of the prizes to be awarded under the prize structure and the actual amounts payable. The amounts of this provision are mainly used to offset occasional shortfalls arising from prize structures that exceed the forecast amounts. Furthermore, this provision may, following the approval of the Board of Directors, be used to award bonus prizes or for discharging any possible claims associated with the games, or it may be included in earnings.

16. Commitments

Leases

The Corporation is committed under long-term leases expiring on various dates through May 2035 for the rental of administrative offices. In certain cases, these leases carry an implied two-to five-year renewal option.

In addition, in November 2006, as part of the implementation of a gaming hall in Québec City, the Government of Québec has authorized the Corporation to enter into a lease expiring in January 2022 for the rental of land in Québec City with five-year renewal periods up to a maximum term of 60 years.

Future minimum payments, in thousands of dollars, are as follows:

2008	20,416
2009	18,288
2010	17,282
2011	15,605
2012	9,275
2013 and thereafter	2,090
	82,956

Network of direct lotteries

In June 2006, the Government of Québec authorized the Corporation, through one of its subsidiaries, to replace its lottery game terminals for a maximum amount of $95.5M, of which $2.8M was recorded as at March 31, 2007. On this date, contractual commitments related to this project amounted to $41.6M.

Gaming halls

Trois-Rivières and Québec City

These two gaming halls are expected to open in fall 2007.

The total budget for implementing the Trois-Rivières gaming hall, which will house 200 video lottery terminals, is $32.2M. As at March 31, 2007, $3.7M was recorded and commitments on that date totalled $2.4M.

The total budget for implementing the Québec City gaming hall, which will house 335 video lottery terminals, is $33.9M. As at March 31, 2007, $3.0M was recorded and commitments on that date totalled $4.7M.

Mont-Tremblant

As part of the implementation of a gaming hall housing 300 video lottery terminals, which is scheduled to open in summer 2008 at the Mont-Tremblant Ski Resort, the Corporation, through one of its subsidiaries, made a commitment in September 2005 to acquire land for an amount of $3.6M, of which $364,000 was recorded as at March 31, 2007 ($364,000 in 2006).

In addition, in November 2006, the Government of Québec authorized the Corporation, through one of its other subsidiaries, to enter into a services agreement with the Mont-Tremblant Ski Resort, Limited Partnership for an indefinite period, providing for the payment of its portion of miscellaneous services such as transportation, marketing and shared costs.

Notes to the Consolidated Financial Statements

Commitments (cont'd)

At the time of opening, minimum annual payments under the services agreement will total $1.7M. Some of these payments are subject to renegotiation based on the opening date.

The total budget for implementing the Mont-Tremblant gaming hall amounts to $56.1M. As at March 31, 2007, $1.3M was recorded and commitments on that date totalled $5.5M.

Northern crown of Montréal
The implementation of a gaming hall on a site not yet determined, which will be located in the northern "crown" of Montréal will house 1,300 video lottery terminals. The budget for implementing this centre totals $99.0M. As at March 31, 2007, $0.4M was recorded and commitments on that date totalled $3.2M.

Agreement to pay guaranteed payments – gaming halls

The Government of Québec has authorized the Corporation, through one of its subsidiaries, to enter into an agreement for guaranteed payments with four limited partnerships.

This agreement provides for a payment for a 15-year period of 22% of the net revenues from 1,900 video lottery terminals located in three gaming halls related to the hippodromes of Trois-Rivières, Québec City and northern "crown" of Montréal and the Aylmer Hippodrome. A renewal option for an additional ten years provides for the payment of a percentage of the net revenues from these 1,900 video lottery terminals that will be equal to the amount payable during the same period to the operators of the video lottery terminals located in bars, brasseries and taverns.

The payment of these amounts is conditional on the limited partnerships respecting their commitments under this agreement for guaranteed payments and those under the asset-sales and commitment agreement of August 17, 2006 related to the race horse industry as well as those under the regulations applicable to video lotteries.

The Corporation is not in a position at this time to evaluate the total amount of this commitment.

Contributions to the Government of Québec

Ministère de l'Agriculture, des Pêcheries et de l'Alimentation (MAPAQ)
Following the repeal of fairground casinos, the Government authorized Loto-Québec to make a commitment to the MAPAQ to pay the annual contribution of $5.5M into a specified purpose account per calendar year until 2008. Upon expiry, the agreement will be renewable by mutual consent between the parties.

Ministère de la Santé et des Services sociaux
With the authorization of the Government of Québec, the Corporation is committed to make an annual contribution of $22.0M to the Ministère de la Santé et des Services sociaux (MSSS) into a specified purpose account to finance prevention measures, treatment services and research programs and information campaigns to help compulsive gamblers.

Commitments (cont'd)

Furthermore, the Corporation is also committed to the MSSS to make an annual contribution of $30.0M into a specified purpose account to finance assistance and support services for the elderly who are no longer autonomous but live on their own or in residential homes.

The Corporation is not in a position to assess the total amount of these commitments.

Ministère de la Sécurité publique
With the authorization of the Government of Québec, the Corporation is committed to the Ministère de la Sécurité publique to make an annual contribution of $3.0M into a specified purpose account to finance activities and intensive control measures implemented by the Régie des alcools, des courses et des jeux in order to specifically ensure the management of control measures regarding access to video lottery terminals. The Corporation is not in a position to assess the total amount of this commitment.

Furthermore, the Corporation is also committed to the same Québec Government department to make an annual contribution of approximately $0.9M into a specified purpose account indexed annually according to the consumer price index and to do so for a five-year period ending March 31, 2012 for purposes of financing additional resources that would allow for a reduction of the certification periods of game terminals operated by the Corporation.

17. Financial Instruments

Fair value

The following methods and assumptions have been used to estimate the fair value of the financial instruments of the balance sheet:

The fair value of short-term financial instruments is equal to their carrying value due to their short-term maturities.

The fair value of the loan to Moliflor Loisirs Développement, the carrying value of which is $101.2M cannot be established because the conditions of this loan result from transactions concluded between related parties, and as a result, the terms and conditions could differ from those that would be negotiated between unrelated companies.

Credit risk

Management estimates that the Corporation is not exposed to significant credit risk. Cash on hand – casinos includes the casinos' cash inventory. Accounts receivable are primarily from operations concluded with a significant number of wholesalers and retailers.

Notes to the Consolidated Financial Statements

18. Consolidated Cash Flows

(in thousands of dollars)	2007	2006
Cash and cash equivalents, end of year		
Cash on hand – casinos	52,683	48,764
Cash (bank overdraft)	19,783	(15,563)
	72,466	33,201
Changes in non-cash operating working capital items		
Accounts receivable	(9,163)	(27,867)
Inventories	2,022	848
Prepaid expenses	1,632	(6,265)
Prizes to winners	(11,987)	16,934
Accounts payable and accrued charges	2,747	4,300
Provisions related to prizes	3,059	916
Deferred revenue	(2,372)	108
	(14,062)	(11,026)
Acquisitions of property, plant and equipment	(112,464)	(42,286)
Less: prepaid expenses transferred to property, plant and equipment	(2,347)	(569)
	(114,811)	(42,855)
Acquisitions of intangible assets	(11,714)	(9,525)
Less: prepaid expenses transferred to intangible assets	159	(474)
	(11,555)	(9,999)
Additional information		
Interest paid	22,143	12,535

The "accounts payable and accrued charges" item includes acquisitions of property, plant and equipment and intangible assets amounting to $13.4M and $4.2M, respectively ($13.7M and $2.7M in 2006).

19. Pension Plan

Employees of the parent company, La Société des loteries vidéo du Québec Inc., La Société des bingos du Québec Inc. and Ingenio, filiale de Loto-Québec Inc. participate in the Régime de retraite des employés du gouvernement et des organismes publics (RREGOP), the Régime de retraite des fonctionnaires (RRF) or the Régime de retraite du personnel d'encadrement (RRPE). These are defined benefit plans and include guarantees upon retirement or death. Contributions charged to consolidated earnings for the year for these multiemployer plans totalled $3.6M ($3.2M in 2006). The employer's obligations toward these government plans are limited to its contributions as an employer.

Employees of La Société des casinos du Québec Inc. and Resto-Casino Inc. participate in a defined contribution plan. Employees of Technologies Nter, société en commandite participate in a group RRSP. These defined contribution plans are voluntary and provide employees with immediate vesting of the employer's contribution, which is equal to the employee's contribution within the limits prescribed under the plans. Contributions charged to consolidated earnings for the year for these plans totalled $9.9M ($9.6M in 2006).

20. Related Party Transactions

In addition to the related party transactions already disclosed and recorded at the exchange amount, the Corporation is related to all Government of Québec departments and special funds, as well as agencies and enterprises directly or indirectly controlled by the Government of Québec, or subject to either joint control or significant joint influence on the part of the Government of Québec. With the exception of the aforementioned transactions, the Corporation has not concluded any business transactions with these related parties other than within the normal course of business and usual business terms and conditions. These transactions have not been disclosed separately in the financial statements.

21. Subsequent Event

On April 1, 2007, a merger took place between two Loto-Québec subsidiaries – Resto-Casino Inc. merged with La Société des casinos du Québec Inc. (SCQ). As an agent of Loto-Québec, SCQ collects the proceeds and incurs the expenses related to the restaurant and lodging operations. The transfer of all assets and liabilities was carried out using the carrying value, and the shares of Resto-Casino Inc. were cancelled without a repayment on capital. The amount of share capital issued and paid of Resto-Casino Inc. was added to that of the SCQ.

22. Comparative Figures

Certain prior year figures of 2006 have been reclassified to conform to the current year's presentation in 2007.

Notes to the Consolidated Financial Statements

23. Segmented Information

(in thousands of dollars)

Business segments	Lotteries	Casinos Restaurants/ Lodging	Video Lotteries	Bingo	Multimedia	International	Elimination of intercompany transactions	2007 Consolidated figures
Revenues								
Games	1,842,432	758,224	1,097,917	39,370	1,062	–	(112)	3,738,893
Restaurants	–	87,786	–	–	–	–	(45,800)	41,986
Lodging	–	16,214	–	–	–	–	–	16,214
Provision of services	–	–	–	–	–	1,739	–	1,739
	1,842,432	862,224	1,097,917	39,370	1,062	1,739	(45,912)	3,798,832
Cost of sales								
Games	1,121,552	21,821	242,663	21,504	–	–	(100)	1,407,440
Restaurants	–	27,248	–	–	–	–	–	27,248
	1,121,552	49,069	242,663	21,504	–	–	(100)	1,434,688
Gross margin	720,880	813,155	855,254	17,866	1,062	1,739	(45,812)	2,364,144
Operating expenses								
Operating costs	153,534	479,923	65,635	5,498	6,216	(7,068)	(45,812)	657,926
Dep. & Amort. of property, plant and equipment	11,401	44,325	24,799	171	46	–	–	80,742
Amortization of intangible assets	6,812	3,060	1,316	366	3	–	–	11,557
Interest – net	7,510	5,295	9,320	(16)	(14)	(7,119)	–	14,976
	179,257	532,603	101,070	6,019	6,251	(14,187)	(45,812)	765,201
Earnings (loss) before the undernoted:	541,623	280,552	754,184	11,847	(5,189)	15,926	–	1,598,943
Special payments	15,986	7,524	–	8,498	–	–	–	32,008
Goods and Services Tax	16,267	8,290	19,112	404	–	–	–	44,073
Québec Sales Tax	20,577	10,497	24,229	511	–	–	–	55,814
Share in a company subject to significant influence Moliflor Loisirs Développement	–	–	–	–	–	(1,017)	–	(1,017)
	52,830	26,311	43,341	9,413	–	(1,017)	–	130,878
Net earnings (loss)	488,793	254,241	710,843	2,434	(5,189)	16,943	–	1,468,065

Expenses are assumed by the Corporation's corporate management team. Certain operating costs and related commodity taxes, attributable directly to the segments, are allocated based on their use. Other expenses are allocated based on the net revenues of the primary business segments.

Segmented Information (cont'd)

(in thousands of dollars)

Business segments	Lotteries	Casinos Restaurants/ Lodging	Video Lotteries	Bingo	Multimedia	International	Elimination of intercompany transactions	2006 Consolidated figures
Revenues								
Games	1,860,630	758,464	1,298,805	39,857	1,354	–	(210)	3,958,900
Restaurants	–	86,164	–	–	–	–	(43,750)	42,414
Lodging	–	14,716	–	–	–	–	–	14,716
	1,860,630	859,344	1,298,805	39,857	1,354	–	(43,960)	4,016,030
Cost of sales								
Games	1,125,059	23,154	287,050	21,416	–	–	(150)	1,456,529
Restaurants	–	26,992	–	–	–	–	–	26,992
	1,125,059	50,146	287,050	21,416	–	–	(150)	1,483,521
Gross margin	735,571	809,198	1,011,755	18,441	1,354	–	(43,810)	2,532,509
Operating expenses								
Operating costs	154,143	482,528	63,044	5,622	6,092	865	(43,810)	668,484
Dep. & Amort. of property, plant and equipment	10,609	44,670	29,251	173	51	–	–	84,754
Amortization of intangible assets	5,244	2,714	1,596	363	3	–	–	9,920
Interest – net	3,711	2,453	5,337	(9)	(17)	(2)	–	11,473
	173,707	532,365	99,228	6,149	6,129	863	(43,810)	774,631
Earnings (loss) before the undernoted:	561,864	276,833	912,527	12,292	(4,775)	(863)	–	1,757,878
Special payments	15,848	7,951	–	8,660	–	–	–	32,459
Goods and Services Tax	18,034	9,371	24,126	433	–	–	–	51,964
Québec Sales Tax	20,613	10,744	27,658	497	–	–	–	59,512
	54,495	28,066	51,784	9,590	–	–	–	143,935
Net earnings (loss)	507,369	248,767	860,743	2,702	(4,775)	(863)	–	1,613,943

Expenses are assumed by the Corporation's corporate management team. Certain operating costs and related commodity taxes, attributable directly to the segments, are allocated based on their use. Other expenses are allocated based on the net revenues of the primary business segments.

Comparative Results

of the fiscal year ended March 31

(in thousands of dollars)	2007	2006	2005	2004	2003
Consolidated Earnings					
Revenues	3,798,832	4,016,030	3,937,464	3,760,743	3,749,410
Cost of Sales					
Lotteries					
Prizes awarded	964,941	966,350	964,397	962,692	953,225
Commissions to retailers	124,004	126,919	126,745	123,595	125,858
Printing of tickets	32,507	31,640	32,486	35,862	33,329
Lotteries Subtotal	1,121,452	1,124,909	1,123,628	1,122,149	1,112,412
Casinos	21,821	23,154	19,137	19,577	18,737
Restaurants	27,248	26,992	26,227	24,207	26,577
Video Lotteries					
Commissions to retailers	241,542	285,738	272,115	276,842	280,007
Printing of coupons	1,121	1,312	1,050	1,132	1,110
Video Lotteries Subtotal	242,663	287,050	273,165	277,974	281,117
Bingo					
Prizes awarded	18,010	18,294	16,574	16,734	17,036
Commissions to operators	2,387	2,297	2,082	2,091	2,112
Printing of cards	1,107	825	776	731	663
Bingo Subtotal	21,504	21,416	19,432	19,556	19,811
Total	1,434,688	1,483,521	1,461,589	1,463,463	1,458,654
Gross Margin	2,364,144	2,532,509	2,475,875	2,297,280	2,290,756
Operating Expenses					
Lotteries	153,534	154,143	146,298	136,028	131,949
Casinos/Restaurants/Lodging	434,123	438,778	431,758	406,067	398,956
Video Lotteries	65,635	63,044	69,368	49,605	40,350
Bingo	5,486	5,562	5,512	5,580	5,416
Multimedia	6,216	6,092	6,108	5,905	5,133
International	(7,068)	865	–	–	–
Corporate *	–	–	–	–	36,345
Depreciation of fixed assets **	–	–	–	80,150	77,440
Dep. & Amort. of property, plant and equipment	80,742	84,754	80,556	–	–
Amortization of intangible assets	11,557	9,920	5,521	–	309
Amortization of deferred charges	–	–	1,028	2,050	2,359
Interest – Net	14,976	11,473	9,733	12,177	7,856
	765,201	774,631	755,882	697,562	706,113
Earnings Before the Undernoted	1,598,943	1,757,878	1,719,993	1,599,718	1,584,643
Special payments	32,008	32,459	29,079	28,165	26,873
Share in a company subject to significant influence Moliflor Loisirs Développement	(1,017)	–	–	–	–
Goods and Services Tax	44,073	51,964	50,234	49,553	52,093
Québec Sales Tax	55,814	59,512	57,547	56,750	59,603
	130,878	143,935	136,860	134,468	138,569
Net Earnings	1,468,065	1,613,943	1,583,133	1,465,250	1,446,074

* Since March 31, 2004, Corporate sector expenses not directly attributable to the segment are allocated based on the net revenues of the primary business segments.
** Since March 31, 2005, the depreciation of fixed assets is differentiated in terms of both tangible assets and intangible assets.

Code of Ethics and Rules of Professional Conduct

The values outlined in the Corporation's Code of Ethics and Rules of Professional Conduct, notably integrity, loyalty and transparency, are values that Loto-Québec has always emphasized and that all senior executives of the Corporation and its subsidiaries are required to respect. During the past fiscal year, the principles of this Code have been fully adhered to by all those to whom it applies.

1 Definitions

1. In this Code, unless the specific context indicates otherwise:

a) "director" designates a member of the Board of Directors of Loto-Québec or any of its subsidiaries, whether or not working full-time within the Corporation or one of its subsidiaries
b) "Board" designates the Board of Directors of Loto-Québec or any of its subsidiaries
c) "executive" designates any contractual manager whose employment conditions are subject to the approval of the Board
d) "enterprise" designates any form that can be taken by an organization for the production of goods or services or the conducting of any other business of a commercial, industrial or financial nature, or any group seeking to promote certain values, interests or opinions or to exercise an influence on public officials; however, this does not include the Corporation or a non-profit association or group that has no financial link with the Corporation or is not incompatible with the objects of the Corporation
e) "subsidiary" designates a company wholly-owned by Loto-Québec
f) "Act" designates the legislation constituting the Société des loteries du Québec (L.R.Q.c. S-13.1), as amended from time to time
g) "Chairman of the Board" designates the President and Chief Executive Officer of Loto-Québec
h) "Corporation" designates Loto-Québec

2 Ethical Principles and General Rules of Professional Conduct

2.1 This Code applies to the directors and executives of the Corporation and its subsidiaries, who are bound to comply with its provisions.

2.2 A director or executive is appointed to contribute to the achievement of the Corporation's mission in the best interests of Québec. Accordingly, he is expected to use his knowledge, abilities, experience and integrity in a way that will promote the fair and efficient accomplishment of the objectives assigned to the Corporation by the Act and the effective administration of the property it owns as mandatary of the State.

2.3 In the course of performing his duties, a director or executive shall comply with the Corporation's mission and the following objectives:

- **Social role:** by expanding the ways of sharing the fruit of its operations with the various communities and regions and increasing its activities in the prevention of compulsive gambling
- **Integrity and credibility:** by demonstrating steadfast vigilance to ensure the integrity, transparency and credibility of the Corporation's activities
- **Expansion:** by developing new markets through associations and partnerships which will allow the Corporation to considerably enhance the traditional lottery games, casinos and video lotteries it offers
- **Competence and expertise:** by promoting the development of the skills essential to the Corporation and establishing programs that ensure respect for human resources
- **Performance:** by offering the best possible entertainment products and services in the lottery, casino, video lottery and bingo sectors, and by increasing the public funds entrusted to it

2.4 A director or executive who, at the request of Loto-Québec or any of its subsidiaries, serves as director, executive or member of another undertaking or company is held to the same standards and obligations.

Code of Ethics and Rules of Professional Conduct

Ethical Principles and General Rules of Professional Conduct (continued)

2.5 In the performance of his duties, a director or executive shall seek to satisfy only the interests of the Corporation, to the exclusion of his own interests or those of others.

2.6 In the performance of his duties, a director is required to comply with the ethical principles and rules of professional conduct prescribed by the Regulation Respecting the Ethics and Professional Conduct of Public Office Holders to the extent that they are applicable to him.

3 Duties and Obligations of Directors and Executives with Respect to Conflicts of Interest

3.1 Prevention of conflicts of interest

3.1.1 A director or executive shall avoid placing himself into a situation in which his personal interest is in conflict with the duties of his position.

3.1.2 To be applicable under the terms of this Code, the interest held by a director or executive in another enterprise must be such that it is likely to conflict with the performance of his duties within the Corporation or any of its subsidiaries. A director or executive who has an interest in an enterprise is in a situation of "conflict of interest" in the following cases, among others:

- if Loto-Québec or any of its subsidiaries has or is likely to have a significant business relationship with the enterprise, that relationship being significant both for Loto-Québec and for the enterprise
- if the enterprise is a listed company and its business relationship with Loto-Québec or any of its subsidiaries is likely to have an effect on listed shares
- if the interest of the director or executive in the enterprise that has a business relationship with Loto-Québec or any of its subsidiaries is such that it may influence the enterprise's affairs
- if the enterprise has signed a contract with Loto-Québec or any of its subsidiaries and this contract is such that it has an impact on the enterprise's assets
- if the enterprise is awarded a contract for which the director or executive has been involved in the choice of supplier

3.1.3 A director or executive who is party to a contract with Loto-Québec or any of its subsidiaries other than his contract of engagement is also considered to be in conflict of interest.

3.2 Disclosure and abstention

3.2.1 A director or executive who:

a) has a direct or indirect interest in an enterprise that places him in a situation of conflict of interest under section 3.1.2 of this Code; or
b) is party to a contract with the Corporation or a subsidiary under section 3.1.3

shall disclose the nature and extent of his interest in writing to the Chairman of the Board. A director shall also abstain from deliberating or voting on any question linked to this interest and refrain from attempting to influence the related decision. He shall withdraw from the meeting while deliberations and voting on this question continue.

Duties and Obligations of Directors and Executives with Respect to Conflicts of Interest (continued)

3.2.2 A director or executive shall make the disclosure required in section 3.2.1 as soon as he has knowledge that he is in a conflict of interest under sections 3.1.2 and 3.1.3. In the case of a director, this disclosure of interest shall be recorded in the minutes of the proceedings of the Board of Directors, of which he is a member.

3.2.3 A director or executive shall notify the Chairman of the Board in writing of any rights that he may invoke against the Corporation or any of its subsidiaries, indicating their nature and value, as soon as these rights come into existence or when he acquires knowledge of them.

3.2.4 A director or executive shall also submit an attestation in the form provided to the Chairman of the Board by June 1st of each year in which he remains in office.

3.2.5 The Chairman of the Board submits the attestations referred to by these sections to the Secretary of the Corporation, who keeps them at the disposal of the members of the Board and the executives. These attestations are treated as strictly confidential.

3.3 Waiver

3.3.1 This Code does not apply to:

a) owning securities when the size of the holding is not likely to place the director or executive into a conflict of interest
b) owning an interest by way of a mutual fund in whose management the director or executive plays no direct or indirect role
c) owning interests through a blind trust whose beneficiary may not know its make-up
d) owning a minimum number of shares required to be eligible as director of a corporation
e) an interest which, by its nature and extent, is common to the public at large or a particular sector in which the director or executive operates
f) a directors' liability insurance agreement
g) the owning of shares issued or guaranteed by a government or municipality under the same conditions for everyone

4 Effective Date

This Code took effect September 1, 1999.

Language Policy

Making Quality a Top Priority

In accordance with the Government's policy on the use of French in public administration, on November 24, 2000, the Corporation adopted a language policy that reflects its business mission and covers the use and quality of French within each of its activity sectors. During the past fiscal year, Loto-Québec continued to collaborate actively with the Office québécois de la langue française to ensure the consistent application of this policy throughout the organization and its subsidiaries.

Board of Directors and Corporate Secretariat

Alain Cousineau
Montréal
Chairman,
President and Chief Executive Officer of Loto-Québec

- *Board Appointment Date: September 29, 2003*
- *Member of the Governance and Ethics Committee*

After obtaining his Master of Business Sciences degree form Université Laval and completing doctoral studies at the University of Illinois, Alain Cousineau occupied several senior management positions within the university and business sectors, including serving as Dean of the University of Sherbrooke's Faculty of Administration, President and Chief Executive Officer of SECOR, and Chairman of the Board and of the Executive Committee at the Société des alcools du Québec. A Director of numerous Canadian corporations, Mr. Cousineau also held the post of President of Tourisme Montréal for a number of years.

Nancy Arbour
Îles-de-la-Madeleine
Chief Executive Officer, Les Marchés Tradition

- *Board Appointment Date: October 29, 2003*
- *Member of the Human Resources Committee*

Nancy Arbour has served as Chief Executive Officer of Immeubles Plaisance and Coop La Sociale, two enterprises based in Îles-de-la-Madeleine. A businesswoman committed to community service, she sits on the Boards of a number of different organizations, including the local Chamber of Commerce and the Regional Tourism Association. Having studied Communications at Université Laval, Ms. Arbour was also Political Attaché for various ministerial departments over the course of 13 years.

Marc G. Bruneau
Montréal
Vice-President and Partner,
GBC Asset Management

- *Board Appointment Date: September 10, 2003*
- *Member of the Auditing and Human Resources Committees*

A graduate of HEC Montréal with a Bachelor's degree in Business Administration, Marc G. Bruneau also studied Administration at Pepperdine University in California. He occupied positions at BMO Nesbitt Burns and the Business Development Bank of Canada before joining GBC in 2002, where he has been a partner since 2004. A recipient of the Hommage bénévolat-Québec award in recognition of his outstanding volunteerism, Mr. Bruneau serves (or has served) on the Boards of the Sainte-Justine Hospital Foundation, the Kids for Kids organization, and the Cirque Éloize and McCord Museum Foundations. Since March 2007, he has been Chairman of the Board of the Montréal Millennium Summit.

Robert Crevier, CA
Mont-Tremblant
Management Consultant

- *Board Appointment Date: July 17, 1991*
- *Chairman of the Auditing Committee*

Holding a Bachelor's degree in Administration Sciences from HEC Montréal, Robert Crevier has been a member of the Québec Order of Chartered Accountants since 1962. Specialized in planning, project management and cost control, he played an active role in a number of mergers conducted by the Mallette Maheu Group, now Samson Bélair Deloitte and Touche. In 2003, Mr. Crevier served as Interim Chairman and Chief Executive Officer of Loto-Québec.

Solange Dugas
Montréal
President, GB Micro

- *Board Appointment Date: September 10, 2003*
- *Chairman of the Human Resources Committee and member of the Governance and Ethics Committee*

Holding a Bachelor of Administration degree from McGill University, Solange Dugas is owner and President of GB Micro, a company created in 1983 and specialized in the distribution of consumer computer and electronics products. Dedicated to contributing to the community, Ms. Dugas is actively involved in several organizations, including LEUCAN and the Canadian Cancer Society. She has also been a member of the Québec chapter of the Young Presidents' Organization since 1998.

Mel Hoppenheim
Montreal
Location Michel Trudel inc.
Mel's Cité du cinéma ltée

- *Board Appointment Date: March 31, 2004*
- *Member of the Auditing Committee*

The owner of a vast film and television production installation and equipment operation, Mel Hoppenheim is a leading figure within his industry, both in Montréal and the rest of Canada. A true visionary, he is one of the co-founders of the Institut national de l'image et du son, which today provides top quality training to more than 300 students. Mr. Hoppenheim is involved in the financing of numerous charitable and community organizations and is a regular and generous contributor to medical research and artistic creation.

Serge LeBel
Québec City
Attorney, BCF S.E.N.C.R.L.

- *Board Appointment Date: October 29, 2003*
- *Chairman of the Governance and Ethics Committee and member of the Human Resources Committee*

A Université Laval Law graduate and member of the Québec Bar since 1983, Serge LeBel specializes in business law and practises primarily in eastern Québec. A member of several Boards, including that of the Port of Québec City, Me LeBel is also actively involved in community affairs. For example, he serves on the Foundation of Au seuil de l'harmonie, a support centre for individuals struggling with dependencies. In addition, Me LeBel is a member of the Interprovincial Lottery Corporation's Board of Directors.

Lynne Roiter
Montréal
Corporate Secretary and Vice-President, Legal Affairs
Loto-Québec

A graduate of Université Laval's Law Faculty and member of the Québec Bar since 1972, Lynne Roiter joined Loto-Québec in 1985 as Director of Legal Affairs. Prior to that, Ms. Roiter practised her profession at the Commission des droits de la personne and the Régie de l'assurance automobile du Québec. Now serving as Loto-Québec's Corporate Secretary and Vice-President of Legal Affairs, she is also Corporate Secretary of the World Lottery Association, an organization comprised of lottery corporations from some 76 different countries around the world.

Board of Directors and Corporate Secretariat

BOARD OF DIRECTORS REPORT

Membership

Loto-Québec's Board of Directors is made up of seven members who are all independent members, with the exception of the President and Chief Executive Officer. The President and CEO occupies the position of Chairman of the Board until such time as this position is filled in accordance with the stipulations of section 9 of Loto-Québec's Act of Incorporation.

All Board members are appointed by the Government of Québec.

Presence of Directors at Board and Committee Meetings

Regular meetings of the Board of Directors are scheduled at the beginning of the fiscal year, while special meetings are organized as needed during the course of the year. Advance notice for advisory committee meetings varies according to the specific committee in question.

There were eight regular Board meetings and two special meetings held during the year. Table 1 illustrates member attendance at Board and Committee meetings. No Director missed more than two consecutive Board meetings during the past fiscal year, and they attended all meetings of Committees on which they sat.

Remuneration of Independent Directors

In adopting Order in Council 610-2006 on June 28, 2006, the Government established the remuneration to which independent Directors are entitled:

- Annual remuneration for all independent Directors: $8,000
- Annual remuneration for Committee Chairpersons: $3,000
- Director's fees for each Board or Committee meeting: $500
- Director's fees for each brief special meeting by conference call: $250

For fiscal 2006-2007, Directors were remunerated as of the effective date of the Order in Council. In all, Directors received total remuneration of $78,250, broken down as illustrated in Table 2.

Mandate and Activities

The Board of Directors is responsible for establishing the Corporation's strategic directions and seeing to their application.

The Board is also charged with ensuring that Loto-Québec is managed in accordance with the stipulations of its Act of Incorporation, as well as with all other laws and pertinent regulations that govern its activities.

Strategic and Business Planning

At each Board meeting, management reported on the evolution of the Corporation's business affairs. The Board conducted a follow-up on the 2004-2007 Strategic Plan with regard to the reconfiguration of the video lottery network and implementation of the gaming centres. The management reports received on these subjects enabled the Board to assess the progress made in implementing these initiatives.

Each of the Corporation's business and corporate units presented the Board with its respective plan, identifying specific issues, strategies, objectives and actions to be taken. Subsequent to these presentations, the Board adopted the 2007-2010 Strategic Plan to be submitted to the Government, along with the 2007-2008 Action Plan.

Financial Results and Internal Control

After each meeting of the Auditing Committee, the Board received a report on all its activities, notably the follow-up on quarterly financial statements, operating costs and internal auditing initiatives. Upon the recommendation of the Auditing Committee, the Board approved Loto-Québec's annual financial statements.

The Board of Directors also approved Loto-Québec's budget and received a report at each of its meetings on the Corporation's and its subsidiaries' financial statements and related highlights.

Moreover, upon the recommendation of the Auditing Committee, the Board modified the internal auditing operational policy. In addition, it was advised of the Auditing Committee's initiatives with respect to the implementation of internal control certifications.

Corporate Governance

Upon the recommendation of the Governance and Ethics Committee, the Board adopted a competence and experience profile for its independent members.

In order to achieve the goal of being recognized as a reference organization, the Board adopted a sustainable development policy comprised of 11 commitments. A follow-up report on this area is presented at each Board meeting.

In recognition of the importance of promoting responsible gaming, the Board also approved a new policy aimed at further assuring retailer compliance with the law prohibiting the sale of lottery tickets to minors. Similarly, the Board approved an advertising code of ethics that applies to all products and services offered by Loto-Québec and its subsidiaries.

Risk Management

During the past year, the Board of Directors requested that a mandate be entrusted to a firm of experts specialized in the gaming sector in order to examine Loto-Québec's prize payment processes and procedures so as to ensure that risk is being properly managed and, if applicable, to propose recommendations for improvement. The Board also asked that the Auditor General responsible for auditing the Corporation since its creation be advised of the results of this review.

Several policies aimed at reinforcing control and oversight measures were reviewed and modified by the Board during the year just ended, including those related to goods and services acquisition or rental contracts and the approval of operating and capital expenses.

Human Resources Management

After every Human Resources Committee meeting, the Board received a report on that group's activities.

The Board approved the annual objectives of the President and CEO, as well as those of senior managers. Based on established parameters, it also approved the variable remuneration for the previous fiscal year (2005-2006) of the President and CEO, senior managers and employees who are part of the profit-sharing program.

In addition, the Board approved the renewal of contracts with senior corporate managers.

Finally, upon the recommendation of the Human Resources Committee, the Board of Directors approved the remuneration standards and scales for the Corporation's and its subsidiaries' non-unionized employees and managers, along with the mandates to negotiate collective agreements about to expire.

Board of Directors and Corporate Secretariat

Director Attendance Report as at March 31, 2007

Members	Board of Directors		Auditing Committee	Human Resources Committee	Governance and Ethics Committee
	Regular	Special	Regular	Regular	Regular
Directors	8	2	4	6	1
Arbour, Nancy	6	2	NA	6	NA
Bruneau, Marc	6	2	4	6	NA
Crevier, Robert	8	2	4	NA	NA
Dugas, Solange	8	2	NA	6	1
Hoppenheim, Mel	4	2	4	NA	NA
LeBel, Serge	7	2	NA	6	1

Remuneration of Independent Directors as per order in Council

Directors	Annual Remuneration	Remuneration as Committee Chairman	Director's Fees	Total Remuneration
Arbour, Nancy	$ 6,000.00	NA	$ 7,000.00	$ 13,000.00
Bruneau, Marc	$ 6,000.00	NA	$ 7,000.00	$ 13,000.00
Crevier, Robert	$ 6,000.00	$ 2,250.00	$ 5,000.00	$ 13,250.00
Dugas, Solange	$ 6,000.00	$ 1,500.00	$ 7,500.00	$ 15,000.00
Hoppenheim, Mel	$ 6,000.00	NA	$ 3,000.00	$ 9,000.00
LeBel, Serge	$ 6,000.00	$ 1,500.00	$ 7,500.00	$ 15,000.00

Directors were also eligible for reimbursement of their travel and accommodation expenses.

AUDITING COMMITTEE REPORT

Membership

The Auditing Committee is made up of three independent members:

Chairman: Robert Crevier, CA
Members: Marc G. Bruneau and Mel Hoppenheim

All members possess the knowledge and experience required to carry out the Committee's mandate. The Committee Chairman is a member of the Ordre des comptables agréés du Québec.

Mandate and Activities

The mandate governing the activities of the Auditing Committee was adopted in February 2004.

In accordance with the terms of its mandate, the Auditing Committee assists the Board of Directors by monitoring the evolution of the Corporation's profitability, as well as its internal controls and reporting. The Committee also verifies that Loto-Québec is respecting its financial commitments and the legal and regulatory requirements governing the disclosure of financial questions. The Committee serves as a link between the province's Auditor General, the Corporation's Internal Auditor, and the Board of Directors.

In August 2006, the Board of Directors decided to include security as part of the Auditing Committee's mandate.

During fiscal 2006-2007, the Auditing Committee's activities included the following:

- Examined the Corporation's quarterly financial statements and budgetary monitoring of operating costs
- Conducted discussions with the Auditor General regarding the auditing plan for Loto-Québec's financial statements, including two meetings without management presence
- Reviewed the financial statements with the Auditor General and recommended their approval to the Board
- Reviewed the internal auditing operational policy, which establishes the mission and scope of responsibilities assigned to the Internal Auditing Department
- Discussed the application of internal control mechanisms and risk management processes with the Director of Internal Auditing and approved the internal control certification project
- Conducted a follow-up on the 2004-2007 Internal Auditing Work Plan
- Adopted and conducted a follow-up on the 2006-2007 Annual Internal Auditing Plan
- Ensured that the Internal Auditing team could act independently of Loto-Québec management

No activity that could potentially have a negative impact on Loto-Québec's financial situation was brought to the Committee's attention by the Internal Auditor or any manager during fiscal 2006-2007.

After every meeting, the Committee reported on its activities to the Board of Directors.

The Auditing Committee did not call upon any outside expert services during the past fiscal year.

Board of Directors and Corporate Secretariat

HUMAN RESOURCES COMMITTEE REPORT

Membership

The Human Resources Committee was created in December 2006 in conjunction with the Governance Act. The Committee is made up of four independent members:

Chairwoman: Solange Dugas
Members: Nancy Arbour, Marc G. Bruneau and Serge LeBel.

Mandate and Activities

During the course of fiscal 2006-2007, the Human Resources Committee's activities included the following:

- Examined and recommended Board approval of a salary review for all non-unionized employees of Loto-Québec and its subsidiaries
- Examined and recommended Board approval of a mandate to negotiate the collective agreement with the Syndicat de professionnelles et de professionnels du gouvernement du Québec (SPGQ), which was signed in March 2007, as well as mandates to negotiate the next collective agreements with casino employees
- Re-evaluated the management remuneration policy
- Examined the variable remuneration program for employees and managers of the Corporation and its subsidiaries in view of recommending the adoption of a new program for all of these individuals

The Human Resources Committee called upon the services of an outside consultant during the past fiscal year to assist with a global management remuneration study.

After every meeting, the Committee reported on its activities to the Board of Directors.

GOVERNANCE AND ETHICS COMMITTEE REPORT

Membership

The Governance and Ethics Committee was created in December 2006 in conjunction with the adoption of the Governance Act. The Committee is made up of three members:

Chairman: Serge LeBel
Members: Solange Dugas and Alain Cousineau.

All Committee members are independent members, with the exception of Mr. Alain Cousineau.

Mandate and Activities

During the course of fiscal 2006-2007, the Governance and Ethics Committee's activities included the following:

- Developed and recommended Board approval of a competence and experience profile for the appointment of Board members
- Undertook a review of the Code of Ethics and Professional Conduct, which was adopted in September 1999 and applies to Directors and management personnel, in view of submitting it for Board approval

The Governance and Ethics Committee submitted a report on its activities to the Board of Directors. The Committee did not call upon the services of any outside consultants during the past fiscal year.

To obtain additional copies of this Annual Report in English or French, please contact:

Loto-Québec
Communications and Public Affairs
500 Sherbrooke Street West, 14th Floor
Montréal, Québec H3A 3G6
Tel.: (514) 282-8000

You may also consult the Annual Report on Loto-Québec's Web site at lotoquebec.com.

Loto-Québec's Annual Report is produced by the Senior Corporate Vice-Presidency of Communications and Public Affairs.

Concept and design
CG3 Communications Graphisme inc.

Photography
Pierre Villeneuve
Yan Côté
Sébastien Lepitre

Printing
Imprimerie L'Empreinte

Legal deposit
ISBN 978-2-550-50071-1
ISSN 0709-5

Loto-Québec's Annual Report is printed on Rolland paper produced in Québec by Cascades using biogas energy and contains 30% post-consumer fibre.

Corporate Structure

Monique Jérôme-Forget
Minister of Finance

Board of Directors

Alain Cousineau
Chairman
President and
Chief Executive Officer

Lynne Roden
Corporate Secretary
Vice President
Legal Affairs

Pierre B. Ebacher
Senior Corporate Vice President
Communications and
Public Affairs

Marcel Croux
Senior Vice President
Corporate Affairs

Jean Roger
Senior Vice President
Commercial Affairs

Gilles Dufour
Senior Vice President
Financial Affairs

Simon Brodeur
Senior Vice President
Major Strategic Initiatives

Addresses

Head Office
500 Sherbrooke Street West
Montréal, Québec H3A 3G6
Tel.: (514) 282-8000
Fax: (514) 499-8660
Web Site: lotoquebec.com

Québec City Office
955 Grande-Allée West
Québec City, Québec G1S 4Y2
Tel.: (418) 686-7575
Fax: (418) 643-2690

La Société des casinos du Québec
500 Sherbrooke Street West
15th Floor
Montréal, Québec H3A 3G6
Tel.: (514) 282-8080
Fax: (514) 864-1886
Web Site: www.societe-des-casinos.com

La Société des loteries vidéo du Québec
500 Sherbrooke Street West
16th Floor
Montréal, Québec H3A 3G6
Tel.: (514) 282-8090
Fax: (514) 864-3283
Web Site: www.slvq.com

La Société des bingos du Québec
500 Sherbrooke Street West
6th Floor
Montréal, Québec H3A 3G6
Tel.: (514) 282-7777
Fax: (514) 864-7332
Web Site: www.bingos-quebec.com

La Société des salons de jeux du Québec
500 Sherbrooke Street West,
3rd Floor
Montréal, Québec H3A 3G6
Tel.: (514) 282-8000
Fax: (514) 982-5503

Ingenio
500 Sherbrooke Street West
20th Floor
Montréal, Québec H3A 3G6
Tel.: (514) 282-0210
Fax: (514) 282-2028
Web Site: www.ingenio-quebec.com

Casino de Montréal
1 Casino Avenue
Montréal, Québec H3C 4W7
Tel.: (514) 392-2746
1 800 665-2274
Fax: (514) 864-4950
Web Site: www.casino-de-montreal.com

Casino de Charlevoix
183 Richelieu
La Malbaie, Québec G5A 1X8
Tel.: (418) 665-5300
1 800 665-2274
Fax: (418) 665-5322
Web Site: www.casino-de-charlevoix.com

Casino du Lac-Leamy
1 Casino Boulevard
Gatineau, Québec J8Y 6W3
Tel.: (819) 772-2100
1 800 665-2274
Fax: (819) 772-3710
Web Site: www.casino-du-lac-leamy.com

Regional Centres

Montréal and Northwestern Québec
Pierre Valcourt
Director of Sales
1945 Maurice-Gauvin Street
Laval, Québec H7S 2M5
Tel.: (450) 682-2525
1 800 361-9026
Fax: (450) 687-4818

Montréal and Southeastern Québec
Ginette Morin
Director of Sales
325 Bridge Street
Montréal, Québec H3K 2C7
Tel.: (514) 409-3190
1 800 361-1244
Fax: (514) 931-0655

Québec City and Eastern Québec
Marie-Claude Paré
Director of Sales
955 Grande-Allée West
Québec City, Québec G1S 4Y2
Tel.: (418) 686-7575
1 800 463-4560
Fax: (418) 643-2690

LOTO QUÉBEC

lotoquebec.com